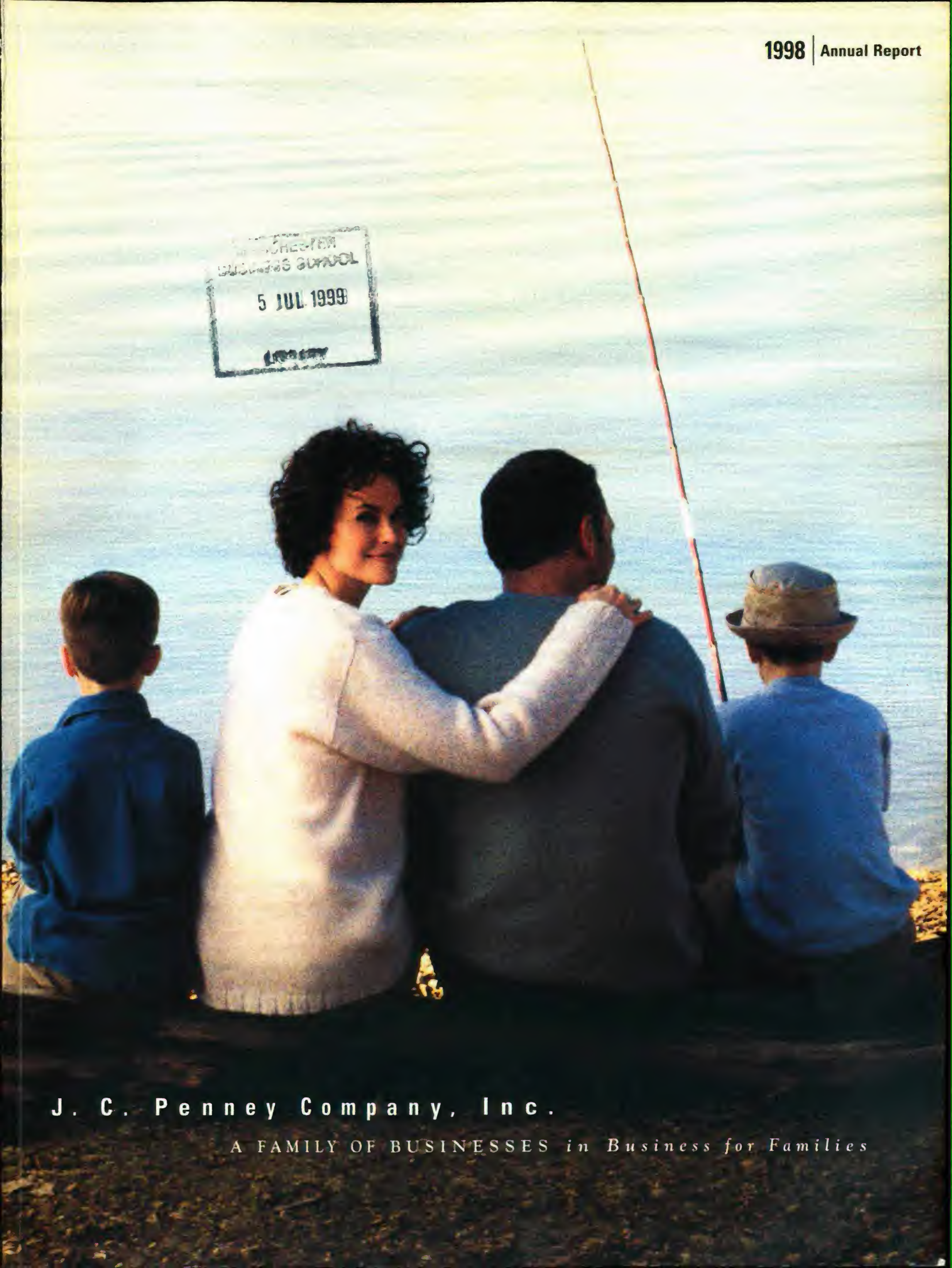
1998 | Annual Report



J. C. Penney Company, Inc.

A FAMILY OF BUSINESSES *in Business for Families*

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OUR FOCUS

The J. C. Penney Company is a family of businesses serving families. Every day, through a variety of channels, we fulfill the wants and needs of families throughout the United States and, increasingly, in international markets.

OUR CUSTOMER

The customer is the common thread uniting our diverse businesses. Getting to know our customers helps us to serve them in more and better ways.

Our goal is to be the customer's first choice for the products and services we offer.

FINANCIAL HIGHLIGHTS

(in millions except per share data)	1998	1997	1996	1995	1994
Total revenue	$30,678	$30,546	$23,471	$21,242	$20,937
Net income	594	566	565	838	1,057
EBITDA(1)	2,428	2,704	2,116	2,116	2,388
Per common share:					
Net income - diluted	$2.19	$2.10	$2.25	$3.33	$4.05
Equity	26.99	27.57	25.67	24.76	23.45
Dividends	2.18	2.14	2.08	1.92	1.68
Debt to capital per cent	61.9%(2)	60.4%	60.1%(3)	52.6%	53.1%
Retail square footage					
Department stores	115.3	118.4	117.2	114.3	113.0
Eckerd drugstores	27.6	27.4	26.4	6.2	4.5

(1) Earnings before interest, including interest on operating leases, income taxes, depreciation, and amortization. EBITDA includes finance revenue net of credit operating costs and bad debt. EBITDA is provided as an alternative assessment of operating performance and is not intended to be a substitute for GAAP measurements. Calculations may vary for other companies.

(2) Assumes completion of the acquisition of Genovese Drug Stores, Inc.

(3) Assumes completion of the acquisition of Eckerd Corporation.

OUR BUSINESSES

Department Stores and Catalog is comprised of 1,148 domestic and international JCPenney stores. Stores are located in all 50 states, Puerto Rico, Mexico, and Chile. Virtually all store locations have catalog desks. In addition, the Company operates 21 department stores in Brazil under the Renner name. The Company's merchandise offerings consist of family apparel, jewelry, shoes, accessories, and home furnishings.

Eckerd Drugstores is comprised of approximately 2,900 drugstores located in the Northeast, Southeast, and Sunbelt regions of the United States and includes the Company's former Thrift, Fay's, and Kerr drugstores and the recently acquired Genovese drugstore chain. Eckerd sells pharmaceuticals and related products as well as general merchandise.

J. C. Penney Direct Marketing Services, Inc. is a direct-marketing organization which markets life, health, accident, and credit insurance, as well as membership services products. It markets to various credit card files by direct response solicitations in the United States, Canada, Australia, and the United Kingdom.

James E. Oesterreicher,
Chairman of the Board and
Chief Executive Officer

To Our Stockholders

Customers speak to us by how often they shop in our department stores and drugstores, order from our catalogs, visit our Internet sites, and respond to our direct marketing offers. The message of 1998 was that JCPenney department stores and catalog did not perform well enough to win the consumer's vote. The result was a negative effect on the Company's overall performance and on stockholder value.

We've heard that message loud and clear – and felt it as well in a financial performance that was simply not acceptable to us or our stockholders. We are committed to an aggressive action plan to improve the 1999 performance of our department stores and catalog and, in so doing, to create the kinds of returns for our stockholders they rightly expect when they invest in our Company.

Department stores and catalog. The year was characterized by a loss of sales momentum in the last three quarters. Heavy promotional activity designed to drive store traffic and sales contributed to a decline in gross profit. We also worked toward the completion of a number of major change initiatives in our department stores, which took some of the focus off execution. However, we do expect these changes to provide significant benefits in 1999 and beyond.

Building stockholder value by improving the profitability of our department store and catalog business is the top priority for 1999. We are pursuing both short-term opportunities and our long-term strategies with a strong sense of urgency.

Our immediate efforts relate to these four areas:

- Defining our target customers.
- Building a merchandising strategy that responds to our target customers.
- Revising and focusing our marketing efforts.
- Improving execution.

From our sales transaction information, customer surveys, and other feedback, we have identified the types of customers who shop with us most frequently and those that offer the greatest potential for new business. We are also defining, from the customer's perspective, our strengths and weaknesses in such areas as merchandise, service, shopping environment, and perceived value. All of our strategies for merchandising, branding, pricing, marketing, and customer service must be developed with the goal of providing customers with clear, convincing reasons to shop with us.

Our merchandising strategy is centered on a balanced offering of private, national, and supplier brands. Private brands enable us to establish a point of difference in the marketplace and deliver more value to the customer. We will offer national brands that are meaningful to our target customers, as well as exclusive brands that we develop with specific suppliers.

We are channeling more of our marketing efforts toward building awareness of our brands with target customer groups. And we are employing new media, such as the Internet and custom publishing, to extend our reach with specific customer groups. Our catalog operation provides critical advantages in the online shopping arena, including experienced and efficient fulfillment capabilities through which we can serve the rapidly growing number of online consumers.

We are improving our store operations and merchandising processes to serve customers more effectively. One example is our initiative to merge department store and catalog inventories, which we expect to complete by the end of 1999. This action will provide a more efficient response to store and catalog needs and improve inventory management. We also have refined our merchandising processes to help us shorten the buying process, respond better to fashion trends, and improve inventory turns.

Eckerd drugstores. Our drugstore business continues to grow rapidly. In March 1999, we completed the acquisition of the Genovese drugstore chain based in New York state. With this acquisition, our 2,900 drugstores are expected to produce about $12 billion in sales in 1999.

As we grow, we are targeting consistent increases in Eckerd's operating profit margins, which did not meet expectations in 1998. Across the drugstore industry, pharmacy margins are under pressure from third-party payors, particularly HMOs and managed care plans. In this environment of constrained margins, revenue growth is a vital part of our strategy because it allows us to leverage expenses.

Increasing sales of non-pharmacy merchandise, which generates higher margins compared to pharmacy products, is key to improving the profitability of our drugstores. As we open new stores and relocate older stores, we are building them in larger, free-standing formats – a strategy that has consistently produced strong sales gains, particularly in non-pharmacy merchandise.

Today's managed health care environment rewards drugstores that provide superior service, multiple locations within major markets, and sophisticated pharmacy benefit management capabilities. The outlook for the drugstore industry remains healthy, due to the aging of the U.S. population and the rapid development of new drugs. We are committed to maintaining our position as a leading competitor in this growth industry.

Direct Marketing. The JCPenney Insurance Group adopted a new name in 1998: J. C. Penney Direct Marketing Services, Inc. This change signifies the evolution of this business into a premier direct marketer of both insurance and membership services. Direct Marketing surpassed $1 billion in annual revenue in 1998 and has produced 11 consecutive years of revenue and earnings growth.

We anticipate continued steady growth from our Direct Marketing business, driven primarily by new product offerings and expansion into international markets. Direct Marketing will continue to offer products we develop, as well as those developed by other companies.

International. Our international department store operations expanded in 1998 when we acquired a majority interest in Lojas Renner S.A. of Brazil. This acquisition provides us with a strong entry into an important market. Our international plans remain focused on Latin America, and we expect to open additional department stores in Mexico, Puerto Rico, and Brazil in 1999 and 2000.

New directors. Recently, we welcomed two new leaders to our Board of Directors. Kent B. Foster, President of GTE Corporation, joined the board in September, and Thomas J. Engibous, Chairman, President, and Chief Executive Officer of Texas Instruments Incorporated, joined the Board in March 1999.

We offer our thanks to George Nigh, who retires from the board in May, for his contributions during his 12 years as a Director.

The future. The JCPenney Company will enter the next century a different company than it was even three years ago. We have established the Company as a family of businesses: department stores and catalog, Eckerd drugstores, Direct Marketing, and our international department store operations. Together and separately, our businesses provide products and services that fulfill many needs in people's daily lives, delivered conveniently through a variety of channels.

Rapid change has presented us with many challenges. But we are confident in our ability – supported by the creativity and energy of more than 260,000 associates – to execute our plans and return the Company to higher levels of profitability.

Our challenge is to continue to listen to and understand our customers. We must clarify and communicate what we stand for in each of our businesses; identify new areas where we can develop points of difference; balance our merchandise mix to keep the customers we have; and shape our messages to appeal to those customer segments that offer us the greatest opportunity for profitable sales growth.

In short, we must make our customer part of every business decision. In so doing, we intend to give our customer the right merchandise and the right service and to give you the competitive return you anticipated when you invested in our Company.

J. E. Oesterreicher

J. E. Oesterreicher

IN BUSINESS

Our goal is to take care of customers so they can take care of business – and everything else in their busy lives. When our department stores and catalogs deliver items with the right combination of quality, value, and fashion, we give our customers one less thing to worry about.

Department Stores and Catalog

Putting customers first is at the core of our strategy for returning JCPenney department stores and catalog to higher levels of profitability. We must reconfirm customers' confidence in JCPenney and leverage our scale and market leadership to increase the value we provide to them.

Our 1,148 department stores are located in all 50 states and occupy more retail space in major regional shopping centers than any other department store retailer in America. Our catalog operation is the nation's largest, with sales of nearly $4 billion and desks in approximately 1,800 locations, including virtually all JCPenney department stores, a growing number of Eckerd drugstores, and free-standing catalog stores. Our catalog infrastructure provides well-established capabilities in fulfillment, telemarketing, and customer service.

In 1998, we did not meet customers' expectations often enough. Sales were $19.3 billion, a 2.0 per cent decline from the prior year on a 52-week basis. Comparable store sales declined 1.9 per cent on a 52-week basis.

We have done extensive research on our customer base in 1998. Our objective for 1999 is to improve profitability and increase market share by clarifying consumer targets, focusing our merchandising efforts, examining our pricing strategies, improving our shopping environment, and focusing our marketing message.

Building private brands. Our private brands give us the ability to tailor our apparel and soft home merchandise to the needs and wants of targeted customer groups and deliver good value. We currently offer 34 private brands, eight of which we call "power brands": The Original Arizona Jean Company®, Worthington®, Stafford®, St. John's Bay®, Hunt Club®, Jacqueline Ferrar®, USA Olympic, and JCPenney Home Collection.™ To enhance their store presentations, we have begun featuring our largest brands in shops containing each brand's total assortment, much like having a specialty store within the larger store. Tests of these shops have shown positive results, and we expect to have them set for The Original Arizona Jean Company, Worthington, Stafford, and St. John's Bay in larger stores by second quarter 1999.

We are also leveraging the scale of our power brands to take costs out of the buying process. For example, brand managers for Arizona Jean Company ($1 billion in annual sales) and St. John's Bay ($800 million) now combine contracts when possible for men's, women's, and children's merchandise to elicit better pricing, source key fabrics earlier, and ensure manufacturing commitments.

We will continue to offer popular national brands that complement our private brand offerings, such as Dockers, Vanity Fair, Jockey, Haggar, and Adidas. In 1998, we successfully launched Crazy Horse, a women's apparel brand produced by Liz Claiborne exclusively for JCPenney. It will be expanded to include special sizes in 1999, and the number of stores carrying the brand will grow to more than 500. Exclusive brands, like Crazy Horse and Joneswear by Jones Apparel, give us a stronger presence in the fashion marketplace and allow us to benefit from the intelligence and expertise of key suppliers.

ALL THE TIME

Good friends are always there for you – and never out of reach. Our combination of private and national brands lets customers choose the items that fit their lifestyles, whether they shop in our department stores or enjoy the efficiency of 24-hour shopping through our catalogs and Internet store.

Service and savings. To improve service, many stores have clustered point-of-sale registers in prominent positions on the selling floor to help customers find assistance and complete transactions quicker. With the aid of new technology, we have consolidated many office and personnel functions, allowing us to shift more resources to staffing the sales floor and training associates in customer service.

We continue to look for ways to take costs out of our business. Recent initiatives include:

- Creating a flatter, more streamlined organization in our buying and store administrative departments.
- Continuing the implementation and refinement of our Fashion Accelerated Shipping Technique (FAST), which allows us to ship opening assortments of fashion merchandise to stores more efficiently. This program has the potential to improve the consistency of fashion assortments.
- Combining our store and catalog inventories, which we expect to complete in 1999. This simplifies inventory management, allows us to shift merchandise between stores and catalog to meet demand, and improves service to customers.
- Consolidating retail distribution and catalog fulfillment into a single logistics organization that is responsible for moving merchandise along the supply chain. In addition to greater efficiency, this new organization – combined with the telemarketing and direct marketing expertise of our catalog business – positions us to explore third-party fulfillment opportunities.

Home shopping. JCPenney catalog extends our marketing reach by offering around-the-clock shopping convenience, greater breadth and depth of merchandise than is available in stores, and the option of home or store delivery.

The performance of our catalog business indicates we must do more to keep our current customers and to attract new customers from outside our traditional customer base. We also must be prepared to serve customers who migrate to Internet shopping.

We opened our Internet store three years ago, and by the 1998 holiday season we had approximately 4,500 items for sale on our World Wide Web site, www.jcpenney.com. In 1999, our entire Fall and Winter Catalog will be available online. Sales from our Internet shopping service increased by 135 per cent in 1998 over the previous year.

We are also developing new formats for online offerings, such as our special holiday Web site that featured a focused selection of gift merchandise. Our Arizona Jeans site (www.arizonajeans.com) targets a young teen audience, and we will soon launch an exclusive Web site dedicated to full-figured women.

Through our stores, catalogs, and the Internet, we can reach customers when and where they want to shop. Our advertising states it simply: "Come in. Call in. Log on."

International. Our international department store group currently operates nine JCPenney stores. We include our five Puerto Rico stores in this group, as well as two in Mexico and two in Chile (one of which is a JCPenney Home Store). In 1998, we expanded our international presence by acquiring a majority interest in Lojas Renner S.A. of Brazil. Renner operates 21 department stores in 15 cities.

We celebrated the opening of a new store that replaced our 30-year-old store at Plaza Las Americas shopping center in Puerto Rico. The Plaza Las Americas store is the largest in the Company and is No. 1 in sales and profit. Two additional stores are planned for Puerto Rico in 1999 and 2000, and two new stores are scheduled to open in Mexico in 2000 and 2001.

We remain committed to Latin America as the focus of our international expansion. These markets offer an excellent opportunity to leverage our global sourcing capabilities, our private brands, and our expertise as a retailer serving the needs of families.

FOR FAMILIES

Keeping memories alive, now and for generations to come. Eckerd drugstores are on the front line of health-care trends – helping people live longer, healthier lives while managing the cost of their health care. And preserving life's precious moments is what Eckerd's industry-leading photofinishing business is all about.

Eckerd Drugstores

In 1998, Eckerd celebrated the 100th anniversary of its founding by J. Milton Eckerd in Erie, Pa. Today, as part of our family of businesses, Eckerd has grown into the fourth-largest American drugstore chain with 1998 sales of $10.3 billion.

Eckerd remains a key growth vehicle for our Company. Our drugstores produced comparable store sales increases of 9.2 per cent and comparable pharmacy increases of 15 per cent in 1998. Drugstores now account for about one third of total Company revenue.

While we are pleased with the pace of our drugstore expansion, we recognize the opportunity to improve our operating performance. The large-scale integration of our existing drugstore holdings and new acquisitions into the Eckerd chain affected our results in 1998. That transition period is largely behind us now, and we intend to focus our energies on improving profitability going forward.

Still growing. In March 1999, we acquired the New York-based Genovese drugstore chain. The 141-store acquisition adds $800 million in annual sales and boosts Eckerd to No. 1 in drugstore sales in New York state.

We are currently the No. 1 or 2 drugstore chain in 34 major markets, including 10 of the 12 fastest-growing markets of this decade. We are also geographically well-positioned to serve the growing retiree population with high store concentrations in major retirement destinations such as Florida, Texas, and the Carolinas.

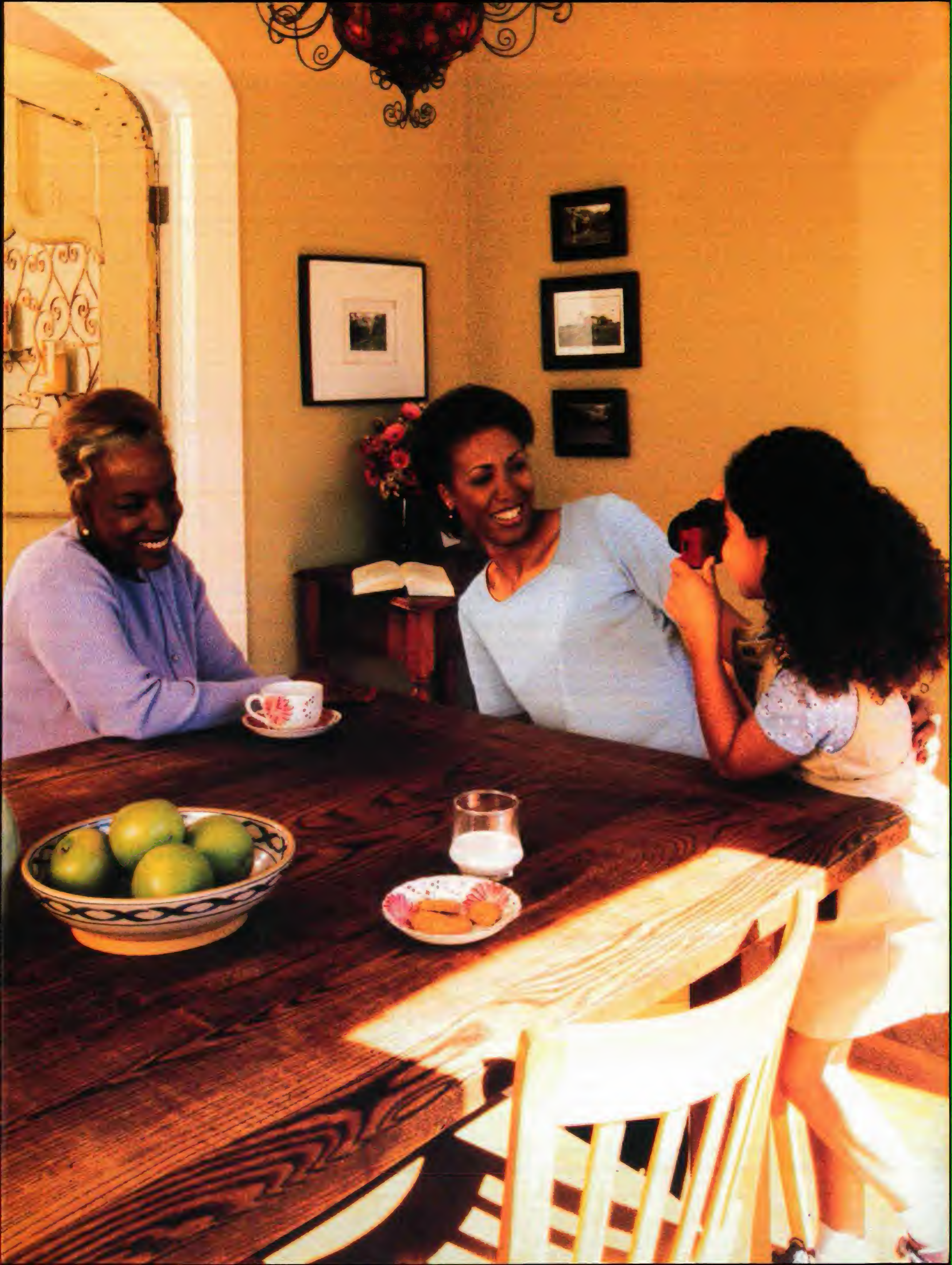
To enhance the shopping environment, convenience, and selection of our stores, we are building new stores in free-standing locations with drive-through pharmacy windows. Stores relocated from strip centers to free-standing locations typically produce sales increases of more than 30 per cent. We plan to open approximately 575 stores through 2000 (both new and relocated), and many of our 2,000 strip-center stores will be candidates for relocation over the next 10 years.

Picturing the future. Photofinishing is an Eckerd strength that drives sales, profit, and store traffic. In original Eckerd markets, we own the highest market share for photo services. Our Express Photo business offers services comparable to those of photo specialty stores. We expect to open approximately 320 Express Photo centers in 1999 and 300 in 2000.

The Eckerd Health Services pharmacy benefit management service (PBM) designs and administers complete prescription benefit plans for employers and HMOs. The PBM network includes over 50,000 participating pharmacies, plus one of the nation's largest retail mail-service pharmacies. We estimate the number of people covered by our PBM will grow from 3 million in 1998 to 6 million in 2000.

Our drugstore, department store, and catalog teams continue to develop synergy that can drive sales and reduce operating costs. Eckerd stores now accept the JCPenney credit card, and by the end of 1999, more than 300 Eckerd stores will contain JCPenney catalog desks. Eckerd and JCPenney teams are also at work on shared merchandising opportunities to take advantage of the combined scale of our drugstores and department stores.

Eckerd marked its centennial by paying tribute to American women in its marketing, advertising, and recognition programs. The new Eckerd themeline, "Right there with you,℠" conveys not only endurance through 100 years but also our desire to build lasting relationships with our customers.



WITH CONFIDENCE

Our customers' desire for security drives business at J. C. Penney Direct Marketing Services, Inc. The insurance products and membership services we offer help families navigate life's twists and turns with confidence. Our convenient direct marketing approach gives them freedom to travel the roads they choose.

Direct Marketing

Our Direct Marketing business completed a milestone year in 1998. First, the JCPenney Insurance Group was renamed J. C. Penney Direct Marketing Services, Inc., a change that reflects the evolution of this business from its origins as an insurance company into a premier direct marketing organization that offers both insurance and membership services. Second, the newly renamed business completed a record year by surpassing $1 billion in revenue for the first time.

Direct Marketing has achieved steady growth through the 1990s by expanding its range of products and services and entering international markets. We market life, health, accident, and credit insurance and membership services, primarily through telemarketing and direct mail. Membership services include benefits on dental, pharmacy, vision, and hearing, as well as services targeted to motorists and travelers. Direct Marketing now has 14.7 million policies, certificates, and membership accounts in force, and in 1998 we completed our 11th consecutive year of revenue and earnings growth.

Vision for the future. We entered 1999 with new leadership. In January, Robert Romasco was elected President and Chief Executive Officer of Direct Marketing, reporting to John Fesperman, President and Chief Operating Officer, JCPenney Direct Marketing Services, Credit, and Facilities Services. Robert was formerly Senior Vice President of Corporate Marketing at American Century Investments, a mutual fund investment firm, and his background includes 26 years of experience in marketing and direct marketing.

We are well-positioned to benefit from the current growth trend in direct marketing services – both as a direct seller of products and services and as a provider of expert marketing solutions for other companies. Through our business relationships with more than 40 credit card issuers, including the industry's leaders, we market to more than 90 million credit card holders. At the same time, we continue to focus on customer retention and developing business from our own customer list, which includes the JCPenney credit card file.

Thinking globally. A portion of our growth in coming years will result from new opportunities that don't even exist today: new products, new services, and new markets. Listening to customers and understanding what they want will help us to develop an even wider range of customer-focused products and services.

Our relationships with major credit card issuers – including banks, petroleum companies, and other retailers – allow us to leverage our expertise in customer modeling and target marketing to drive growth. These relationships are a key part of our strategy for moving into international markets. We have amassed a base of more than one million customers in Canada through our relationships with four credit card sponsors, and in 1998 we established a presence in the United Kingdom. We are also exploring other opportunities in the Pacific Rim as we pursue our intent to become a premier, worldwide direct marketer in the 21st century.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

J. C. Penney Company, Inc.

($ in millions)	52 Weeks 1998	53 Weeks 1997	52 Weeks 1996
Segment operating profit			
Department stores and catalog (**LIFO**)	$ 1,013	$ 1,368	$ 1,183
Eckerd drugstores (**LIFO**)	254	347	99
Direct marketing	233	214	186
Total segments	1,500	1,929	1,468
Other unallocated	26	39	45
Net interest expense and credit operations	(480)	(547)	(278)
Amortization of intangible assets	(113)	(117)	(23)
Other charges, net	22	(379)[1]	(303)[2]
Income before income taxes	955	925	909
Income taxes	(361)	(359)	(344)
Net income	$ 594	$ 566	$ 565

(1) The Company previously reported $447 million (pre-tax) of other charges, net (formerly labeled as restructuring and business integration expenses, net), in 1997. $45 million of this amount has been reclassified as a reduction to drugstore gross margin and $23 million has been reclassified as an increase to department stores and catalog SG&A.

(2) The Company previously reported $354 million (pre-tax) of other charges, net, in 1996. $31 million of this amount has been reclassified as a reduction to drugstore gross margin and $20 million has been reclassified as an increase to department stores and catalog SG&A.

RESULTS OF OPERATIONS

Net income in 1998 totaled $594 million, or $2.19 per share, compared with $566 million, or $2.10 per share, in 1997 and $565 million, or $2.25 per share, in 1996. Operating results for 1998 include credits of $13 million, net of tax, or five cents per share, related to the reversal of reserves established in 1997. Operating results for 1997 include $231 million in other charges, net of tax, or 86 cents per share, related principally to an early retirement program, closing of underperforming department stores, and drugstore integration activities. Operating results for 1996 include $196 million in other charges, net of tax, or 79 cents per share, related primarily to drugstore integration activities (see Note 13 to the consolidated financial statements on page 33 for further discussion of the 1997 and 1996 charges). Excluding these items, earnings per share totaled $2.14 in 1998 compared with $2.96 in 1997 and $3.04 in 1996. All references to earnings per share are on a diluted basis.

Certain amounts reported as other charges (formerly labeled as restructuring and business integration expenses), net, have been reclassified in this year's report. Charges related to one-time start-up activities have been reclassified to department stores and catalog selling, general, and administrative (SG&A) expenses, and inventory integration losses associated with the Company's drugstore operations have been reclassified to drugstore gross margin. Following is a summary of the reclassifications and their effects on reported earnings per share before other charges:

	1997		1996	
($ in millions, except per share data)	$	EPS	$	EPS
As previously reported				
Net income	$ 566	$ 2.10	$ 565	$ 2.25
Other charges, net	273	1.02	228	0.92
Earnings before other charges, net	$ 839	$ 3.12	$ 793	$ 3.17
Reclassifications (net of tax) to:				
Drugstore gross margin	(28)	(0.11)	(19)	(0.08)
Department stores and catalog SG&A	(14)	(0.05)	(13)	(0.05)
Total reclassifications	(42)	(0.16)	(32)	(0.13)
Revised				
Net income	$ 566	$ 2.10	$ 565	$ 2.25
Other charges, net	231	0.86	196	0.79
Earnings before other charges, net	$ 797	$ 2.96	$ 761	$ 3.04

The following discussion addresses results of operations on a segment basis. The discussion addresses changes in comparable store sales (those open for more than a year) where appropriate, and changes in costs and expenses as a per cent of sales because 1997 included an extra week.

Department stores and catalog

($ in millions)	52 Weeks 1998	53 Weeks 1997	52 Weeks 1996
Retail sales, net			
Department stores	$ 15,402	$ 16,047	$ 15,734
Catalog	3,929	3,908	3,772
Total retail sales, net	19,331	19,955	19,506
FIFO gross margin	5,697	6,152	5,872
LIFO credit	35	20	20
Total gross margin	5,732	6,172	5,892
SG&A expenses	(4,719)	(4,804)	(4,709)
Operating profit	$ 1,013	$ 1,368	$ 1,183
Sales per cent inc/(dec)			
Department stores(1)	(2.8)%	0.7%	5.1%
Comparable stores	(1.9)%	(0.3)%	3.4%
Catalog(1)	1.5%	2.7%	0.9%
Ratios as a per cent of sales			
FIFO gross margin	29.5%	30.8%	30.1%
LIFO gross margin	29.7%	30.9%	30.2%
SG&A expenses	24.4%	24.1%	24.1%
LIFO operating profit	5.3%	6.8%	6.1%
LIFO EBITDA(2)	8.6%	9.7%	9.0%

(1) Sales comparisons are shown on a 52-week basis for all periods presented. Including 1997's 53rd week, department stores sales declined by 3.9 per cent in 1998 and increased 2.0 per cent in 1997, while catalog sales increased by 0.6 per cent and 3.6 per cent for 1998 and 1997, respectively.

(2) Earnings before interest, including interest on operating leases, income taxes, depreciation, and amortization. EBITDA includes finance revenue net of credit operating costs and bad debt. EBITDA is provided as an alternative assessment of operating performance and is not intended to be a substitute for GAAP measurements. Calculations may vary for other companies.

1998 compared with 1997. Operating profit totaled $1,013 million in 1998 compared with $1,368 million in 1997. The decline for the year was primarily attributable to lower sales coupled with lower gross margins. Sales in comparable department stores declined by 1.9 per cent and were especially soft in the fourth quarter. Department store sales were strongest in women's apparel, while athletic apparel and footwear were particularly hard hit by softening sales throughout 1998. Sales were weak across all regions of the country. Catalog sales increased by 1.5 per cent on a 52-week basis and were strongest in the third quarter when they increased by 8.0 per cent. Third quarter catalog sales benefited from participation in department store promotional programs which may have shifted buying patterns for catalog shoppers from the fourth quarter to third quarter. Both department stores and catalog results, although not readily quantifiable, were impacted by disruptions caused by the many organizational and process changes initiated in 1997 and completed in 1998. These changes impacted both the flow of merchandise and store personnel serving customers.

LIFO gross margin as a per cent of sales for department stores and catalog declined by 120 basis points compared with 1997, principally as a result of aggressive promotional programs during the fourth quarter. As the fourth quarter progressed, the Company increased promotions to stimulate sales. While this generated unit sales and helped manage inventory levels, it had a negative impact on gross margin as a per cent of sales. Markup improved in 1998 as the Company continued to drive down its merchandise sourcing costs and improved efficiencies with its supplier base. The improvement in markup partially offset the effects of the higher markdowns. Gross margin includes a LIFO credit of $35 million in 1998 and $20 million in 1997. The LIFO credits for both years are generally the result of a combination of flat to declining retail

prices as measured by the Company's internally developed inflation index, and improving markup. The Company continued to control its SG&A expense levels throughout 1998. However, they were not leveraged as a per cent of sales due to sales declines, increasing by 30 basis points from prior year levels. In 1998 the Company realized savings of approximately $95 million related to the early retirement and reduction in force programs as well as other cost-saving initiatives. These savings were reinvested in programs designed to enhance customer service in the stores and into advertising and promotional programs.

1997 compared with 1996. Operating profit for department stores and catalog was $1,368 million in 1997, an increase of $185 million, or 15.6 per cent, compared with 1996. The increase in operating profit was principally related to improvements in gross margin and well-managed expense levels. Comparable store sales declined 0.3 per cent for the year compared with 1996. Department store sales were strongest in the first half of the year as the Company emphasized promotional programs designed to reduce its inventory levels. Sales performance in department stores was led by the women's apparel division, particularly dresses and career and casual wear, and the children's and shoe division. Catalog sales for the year increased by 2.7 per cent compared with 1996 on a 52-week basis, and were led by women's and men's apparel as well as the home division.

Gross margin for department stores and catalog increased by 70 basis points in 1997 compared with 1996, and included a LIFO credit of $20 million in both 1997 and 1996. SG&A expenses were well managed across all areas, particularly advertising, and were flat as a percentage of sales as compared with 1996.

Eckerd drugstores

	52 Weeks	53 Weeks	52 Weeks 1996[1]	
($ in millions)	1998	1997[1]	Pro Forma	Historical
Retail sales, net	$ 10,325	$ 9,663	$ 8,526	$ 3,147
FIFO gross margin	2,208	2,093	1,870	708
LIFO charge	(45)	(32)	(23)	(5)
Inventory integration losses	(98)	(45)	(31)	(31)
Total gross margin	2,065	2,016	1,816	672
SG&A expenses	(1,811)	(1,669)	(1,510)	(573)
Operating profit	$ 254	$ 347	$ 306	$ 99
Sales per cent increase				
Total sales[2]	8.9%	11.2%[3]	10.3%	100.0+%
Comparable stores	9.2%	7.4%	7.8%	7.7%
Ratios as a per cent of sales				
FIFO gross margin	20.4%	21.2%	21.6%	21.5%
LIFO gross margin	20.0%	20.9%	21.3%	21.3%
SG&A expenses	17.5%	17.3%	17.7%	18.2%
LIFO operating profit	2.5%	3.6%	3.6%	3.1%
LIFO EBITDA[4]	5.1%	5.8%	5.7%	5.4%

(1) 1997 and 1996 gross margin, operating profit, and EBITDA have been restated to reflect inventory integration charges that were previously reported as part of the Company's other charges. The inventory charges were primarily related to the liquidation of nonconforming merchandise that resulted from conversion of all drugstores to the Eckerd name and format.

(2) Sales comparisons are shown on a 52-week basis for all periods presented. Including 1997's 53rd week, drugstore sales increased by 6.9 per cent and 13.3 per cent for 1998 and 1997, respectively.

(3) 1997 sales increase is calculated based upon 1996 pro forma sales.

(4) Earnings before interest, including interest on operating leases, income taxes, depreciation, and amortization. EBITDA is provided as an alternative assessment of operating performance and is not intended to be a substitute for GAAP measurements. Calculations may vary for other companies.

1998 compared with 1997. Operating profit for the Company's drugstore segment totaled $254 million in 1998 compared with $347 million for the prior year. Sales grew at a strong pace throughout the year, increasing by 9.2 per cent for comparable stores. Sales growth was fueled by a 15.0 per cent gain in comparable pharmacy sales, which account for approximately 60 per cent of total store sales. Non-pharmacy merchandise sales increased 1.5 per cent for the year, and strengthened as the year progressed. Sales also benefited from the relocation of 175 stores to more convenient free-standing locations during the year; these relocated stores typically generate sales growth of over 30 per cent.

Both 1998 and 1997 included charges related to the liquidation of nonconforming merchandise resulting from the conversion of the former Thrift, Fay's, Kerr, and certain acquired Rite Aid and Revco drugstores into the Eckerd name and format. These charges totaled $98 million in 1998 and $45 million in 1997. Excluding these charges, gross margin declined by 40 basis points in 1998. Gross margin declines were principally attributable to a higher percentage of pharmacy sales, especially managed care sales, which carry lower margins. Approximately 85 per cent of pharmacy sales are processed through managed care providers. Gross margin for non-pharmacy merchandise improved for the year. Gross margin includes a LIFO charge of $45 million in 1998 compared with a $32 million charge last year as a result of continuing inflation in drugstore merchandise, particularly pharmaceuticals. SG&A expenses as a per cent of sales increased by 20 basis points for the year, and were negatively impacted by additional staffing costs in connection with the integration of the various drugstore formats during the first half of the year. In the second half, expenses were leveraged.

1997 compared with 1996. The acquisition of Eckerd Corporation (Eckerd), which was completed in February 1997, transformed the Company's drugstores from a $3 billion to a $9 billion operation. Due to the dramatic increase in the size of the combined operation, management believes that it is more meaningful to compare 1997 operating results to 1996 pro forma operating results, assuming the acquisitions had occurred at the beginning of 1996. The following comments are based upon such a comparison. Historical information is provided in the table on the previous page for reference purposes only.

During 1997, Eckerd was heavily involved in the integration of the Company's former drugstore operations into the Eckerd organization. Despite the significant integration activities that were occurring throughout 1997, operating profit increased to $347 million from $306 million in 1996, an increase of $41 million. The improvement was principally related to increased sales volumes and reduced SG&A expenses from the combined operations. Sales growth was strong the entire year, increasing by 11.2 per cent on a 52-week basis and 7.4 per cent on a comparable store basis. Sales improvement was driven by increases in pharmacy sales. Pharmacy sales continue to be positively impacted by growth in managed care sales, which account for approximately 80 per cent of the prescription business.

Both 1997 and 1996 included charges related to the liquidation of nonconforming merchandise resulting from the conversion of drugstores to the Eckerd name and format. These charges totaled $45 million in 1997 and $31 million in 1996. Excluding these charges, gross margin declined by 40 basis points as a per cent of sales. The decline in gross margin per cent was primarily attributable to grand reopening promotional activities for the converted regions and growth in the managed care prescription business, which carries lower margins. Gross margin included a $32 million LIFO charge compared with a $23 million charge in 1996, reflecting continued inflation in prescription drug prices. SG&A expenses were well leveraged as a result of higher sales volumes and the elimination of duplicate support functions. For the year, SG&A expenses improved by 40 basis points as a per cent of sales.

Direct Marketing

($ in millions)	1998	1997	1996
Operating revenue			
Insurance premiums, net	$ 872	$ 800	$ 711
Membership fees	65	50	37
Investment income	85	78	70
Total revenue	1,022	928	818
Claims and benefits	(340)	(332)	(298)
Other operating expenses[1]	(449)	(382)	(334)
Operating profit	$ 233	$ 214	$ 186
Revenue increase	10.1%	13.4%	20.3%
Operating profit increase	8.9%	15.1%	18.5%
Operating profit as a per cent of revenue	22.8%	23.1%	22.7%

(1) Includes amortization of deferred acquisition costs of $195 million, $170 million, and $149 million, respectively.

In 1998, JCPenney Insurance Group changed its name to J. C. Penney Direct Marketing Services, Inc. (Direct Marketing) to more properly reflect the nature of its business – marketing both insurance and membership services.

Direct Marketing's operating profit has been consistently strong, totaling $233 million in 1998 compared with $214 million in 1997 and $186 million in 1996, representing approximately 23 per cent of revenues in each year. Both revenue and operating profit for Direct Marketing improved in 1998 for the eleventh consecutive year. Total revenue exceeded $1 billion for the first time in 1998, increasing from $928 million in 1997 and $818 million in 1996. The increase during both 1998 and 1997 was principally related to health insurance premiums, which account for approximately 70 per cent of total premiums, and which increased by 11.7 per cent and 17.6 per cent, respectively. Revenue growth for the three-year period is attributable to successfully maintaining and enhancing marketing relationships with businesses for the sale of insurance products throughout the United States and Canada, principally banks, oil companies, and retailers. In 1998, Direct Marketing expanded its international operations when it began marketing through business relationships in the United Kingdom and initiated activity in Australia.

Membership services, which consist principally of benefits for dental, pharmacy, vision and hearing, as well as services for travelers and motorists represent a small but growing component of the Direct Marketing business.

Net interest expense and credit operations

($ in millions)	1998	1997	1996
Revenue	$ (702)	$ (675)	$ (650)
Bad debt expense	229	307	238
Operating expenses	342	334	331
Interest expense, net	611	581	359
Net interest expense and credit operations	$ 480	$ 547	$ 278
90-day delinquency rate	3.0%	3.9%	3.7%

Includes amounts related to the Company's retained interest in JCP Master Credit Card Trust.

See page 42 for additional information.

Net interest expense and credit operations improved by $67 million in 1998 compared with 1997, principally as a result of declines in bad debt expenses. Bad debt expense declined by $78 million for the year as a result of favorable credit industry trends as well as the Company's efforts to tighten credit underwriting standards to improve portfolio performance and reduce risk. At the end of fiscal 1998, 90-day delinquencies were 3.0 per cent of receivables compared with 3.9 per cent at the end of 1997. Higher revenues in 1998 reflect the increase in owned customer receivables from $2,956 million to $3,406 million. Interest expense, net, including financing costs for receivables, inventory, and capital, increased to $611 million from $581 million last year due to higher borrowing levels.

Net interest expense and credit operations increased in 1997 compared to 1996, principally as a result of rising bad debt on customer receivables and interest expense on debt related to the drugstore acquisitions. While revenue increased in 1997, primarily as a result of modifications that were made to credit terms in selected states, it was more than offset by an increase of $69 million in bad debt expense. Bad debt expense in both 1997 and 1996 was negatively impacted by high delinquency rates and high levels of personal bankruptcies that were affecting the entire credit industry. The 90-day delinquency rate was 3.9 per cent at the end of 1997 compared with 3.7 per cent at the end of 1996. Interest expense increased in 1997 primarily as a result of $3.0 billion of debt that was issued in connection with the Eckerd acquisition.

The Company has experienced a migration of credit sales from its proprietary credit card to third-party cards over the past several years (see Supplemental Data on page 42). The Company has not experienced any significant adverse effects on total credit sales from the decline in proprietary card usage and continues to successfully manage both its proprietary card levels and its relationships with bankcard providers. The decline in receivable balances, however, has had a positive impact on the Company's cash flow.

Income taxes. The effective income tax rate in 1998 decreased to 37.8 per cent compared with 38.8 per cent in 1997 and 37.9 per cent in 1996.

FINANCIAL CONDITION

Cash flow from operating activities was $1,058 million in 1998 compared with $1,218 million in 1997 and $382 million in 1996. Declines in receivable and inventory levels had a positive impact on cash flow for the year. While net income has remained relatively flat in recent years, cash flow has remained strong as a result of the increases in non-cash charges, primarily related to the Eckerd acquisition. 1998 cash flow from operations, adjusted for the effects of receivables financing, was sufficient to fund substantially all of the Company's operating needs – working capital, capital expenditures, and dividends. Management expects cash flow to cover the Company's operating needs for the foreseeable future.

Merchandise inventory. Total LIFO inventory was $6,031 million in 1998 compared with $6,162 million in 1997 and $5,722 million in 1996. The increase in 1997 was related to growth within Eckerd drugstores. FIFO merchandise inventory for department stores and catalog was $4,082 million, a decrease of 3.7 per cent on an overall basis and approximately two per cent for comparable stores compared with 1997 levels as the Company continued to focus on improving its merchandise procurement processes and increasing inventory turnover. Eckerd FIFO merchandise inventory was $2,176 million, an increase of 1.3 per cent compared with the prior year. It is anticipated that Eckerd inventories will grow as a result of its store expansion plans and its strategy to relocate older strip center stores to free-standing locations.

Properties. Property, plant, and equipment, net of accumulated depreciation, totaled $5,458 million at January 30, 1999, compared with $5,329 million and $5,014 million at the ends of fiscal 1997 and 1996, respectively.

At the end of 1998, the Company operated 1,148 JCPenney department stores, comprising 115.3 million gross square feet. The decline in the store count over the past two years was principally related to the closing of underperforming stores that was a component of the Company's 1997 other charges. All stores slated for closing had closed by the end of fiscal 1998. In addition, the Company operated 2,756 Eckerd drugstores as of the end of fiscal 1998, comprising 27.6 million square feet. Eckerd store counts have declined as a result of closing underperforming and overlapping stores during the conversion of former drugstore formats to Eckerd.

Capital expenditures

($ in millions)	1998	1997	1996
Department stores and catalog	$ 420	$ 443	$ 636
Eckerd drugstores	256	341	103
Other corporate	20	26	51
Total	$ 696	$ 810	$ 790

1998 capital spending levels for property, plant, and equipment declined for both department stores and catalog and Eckerd drugstores. In 1998, the Company spent approximately $150 million on existing department store locations compared with approximately $200 million in both 1997 and 1996. It is expected that capital spending for department stores and catalog will total approximately $300 million in 1999.

Capital spending for drugstores declined in 1998 by $85 million. Capital spending levels in 1997 included additional capital requirements needed to support the conversion of drugstores to the Eckerd name and format. During 1998, Eckerd added 256 new, relocated, and acquired stores and expects to add an additional 275 in 1999, excluding the Genovese acquisition. Capital spending in 1999 is projected at approximately $300 million, with the majority of the spending related to the new and relocated stores.

Total capital spending for 1999 is currently projected at approximately $650 million.

Acquisitions. The Company completed the acquisition of a majority interest in Lojas Renner S.A. (Renner), a 21-store Brazilian department store chain, in January 1999. The total purchase price of $139 million is being allocated to assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over fair value is expected to be $58 million and is included in intangible assets in the consolidated balance sheets. The acquisition is being accounted for under the purchase method. Renner is a calendar year company, and therefore their results will be included with Company results of operations beginning in fiscal 1999.

During fiscal 1998, Direct Marketing formed Quest Membership Services, Inc. and acquired certain assets to expand its membership services operation to include travel services. In addition, Direct Marketing acquired Insurance Consultants, Inc. which strengthens its access to other business relationships. The total purchase price for the two acquisitions was approximately $72 million.

Intangible assets. At the end of 1998, goodwill and other intangible assets, net, totalled $2,933 million compared with $2,940 million in 1997 and $1,861 million in 1996. Intangible assets consist principally of favorable lease rights, prescription files, software, trade name, and goodwill. They represent the excess of the purchase price over the fair value of assets received in the Company's drugstore acquisitions. The increase in 1997 was related to the completion of the Eckerd acquisition in February 1997.

Reserves. At the end of 1998, the consolidated balance sheet included reserves totaling $110 million which are included as a component of accounts payable and accrued expenses and $25 million in receivables, net. These reserves were established in connection with 1996 and 1997 restructuring charges, principally those related to drugstore integration activities and the closing of underperforming department stores. The reserves consisted principally of the present value of future lease obligations for closed stores and for severance and outplacement costs related to a reduction in force program. Reserve balances were calculated based upon estimated costs to complete the various programs. Actual costs were below the original estimates for the reduction in force program and closing of underperforming stores. Consequently, reserves were adjusted in the fourth quarter of 1998, resulting in a pre-tax credit of $22 million that is reported as other charges, net. Reserve balances were reduced by $84 million in 1998 for cash payments made during the year. Also, in connection with the Company's early retirement program, reserves were established for the periodic future payments to be made under the Company's pension plans. These reserves are included in pension liabilities which are discussed in Note 12 to the consolidated financial statements, *Retirement Plans*, on page 32. Payments for both lease obligations and pension benefits will be paid out over an extended period of time. See Note 13, *Other Charges, Net*, on page 33 for additional information.

Debt to capital

	1998	1997	1996
Debt to capital per cent	62.7%*	60.4%	64.5%**

** Upon completion of the Genovese Drug Stores, Inc. acquisition, the debt to capital ratio declined to 61.9 per cent*

*** Upon completion of the Eckerd acquisition, the debt to capital ratio declined to 60.1 per cent*

The Company's debt to capital per cent, assuming completion of the drugstore acquisitions, has increased over the past three years. The Company expects the debt to capital ratio to improve over the next several years.

During the fourth quarter of 1998, JCP Receivables, Inc., an indirect wholly owned special purpose subsidiary of the Company, completed a public offering of $650 million aggregate principal amount of 5.5 per cent Series E asset-backed securities of the JCP Master Credit Card Trust. In addition, the Company retired $449 million of debt at the normal maturity date during the year, including the debt associated with the Company's ESOP. In 1997's first quarter, the Company issued $3.0 billion of long-term debt, which principally represented a conversion of short-term debt that had been issued in 1996 in connection with the initial phase of the Eckerd acquisition. The average effective interest rate on the debt issued in 1997 was 7.5 per cent and the average maturity was 30 years. Total debt, both on and off-balance-sheet, was $12,044 million at the end of 1998 compared with $11,237 million in 1997 and $10,807 million in 1996.

During the past three years, the Company has issued 28.4 million shares of common stock related to its drugstore acquisitions. The Company repurchased 5.0 million shares of its common stock in the fourth quarter of 1998 for $270 million and 7.5 million shares in 1996 for $366 million as part of previously approved share repurchase programs. The Company has the authority to repurchase an additional 5.0 million shares under these programs.

Year 2000 readiness. The Year 2000 issue exists because many computer systems store and process dates using only the last two digits of the year. Such systems, if not changed, may interpret "00" as "1900" instead of the year "2000." The Company has been working to identify and address Year 2000 issues since January 1995. The scope of this effort includes internally developed information technology systems, purchased and leased software, embedded systems, and electronic data interchange transaction processing.

In October 1996, a companywide task force was formed to provide guidance to the Company's operating and support departments and to monitor the progress of efforts to address Year 2000 issues. The Company has also consulted with various third parties, including, but not limited to, outside consultants, outside service providers, infrastructure suppliers, industry groups, and other retail companies and associations to develop industrywide approaches to the Year 2000 issue, to gain insights to problems, and to provide additional perspectives on solutions. Year 2000 readiness work was more than 90 per cent complete as of January 30, 1999. Since January 1999, the Company has been retesting all systems critical to the Company's core businesses. The Company has also focused on the Year 2000 readiness of its suppliers and service providers, both independently and in conjunction with the National Retail Federation.

Despite the significant efforts to address Year 2000 concerns, the Company could potentially experience disruptions to some of its operations, including those resulting from noncompliant systems used by third-party business and governmental entities. The Company has developed contingency plans to address potential Year 2000 disruptions. These plans include business continuity plans that address accessibility and functionality of Company facilities as well as steps to be taken if an event causes failure of a system critical to the Company's core business activities.

Through the end of fiscal 1998, the Company had incurred approximately $32 million to achieve Year 2000 compliance, including approximately $9 million related to capital projects. The Company's projected cost for Year 2000 remediation is currently estimated to be $46 million. Total costs have not had, and are not expected to have, a material impact on the Company's financial results.

Inflation and changing prices. Inflation and changing prices have not had a significant impact on the Company in recent years due to low levels of inflation.

Subsequent events. In February 1999, the Company redeemed approximately $199 million principal amount of 9.25 per cent of Eckerd notes that had an original maturity date in 2004.

On March 1, 1999, the Company completed the acquisition of Genovese Drug Stores, Inc. (Genovese), a 141-drugstore chain with locations in New York, New Jersey, and Connecticut, with 1998 sales of approximately $800 million. The acquisition was accomplished through an exchange of approximately 9.6 million shares of JCPenney common stock for the outstanding shares of Genovese, and the conversion of outstanding Genovese stock options into approximately 550 thousand common stock options of the Company. The total value of the transaction, including the assumption of approximately $65 million of debt, was approximately $420 million. The purchase price will be allocated to assets acquired and liabilities assumed based on their estimated fair values, as well as intangible assets acquired, primarily prescription files and favorable lease rights. The excess purchase price over the fair value of assets acquired and liabilities assumed will be classified as goodwill and amortized over 40 years. The acquisition will be accounted for under the purchase method.

COMPANY STATEMENT ON FINANCIAL INFORMATION

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and present fairly, in all material respects, the Company's results of operations, financial position, and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment as to the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization, and are recorded and reported properly. The system is continually reviewed, evaluated, and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears to the right. Their audit was conducted in accordance with generally accepted auditing standards, which include the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the independent auditors' audit strategy and plan, scope, fees, audit results, and non-audit services and related fees; internal audit reports on the adequacy of internal controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings. The independent auditors and Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

D A McKay

Donald A. McKay
Executive Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors
of J. C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J. C. Penney Company, Inc. and Subsidiaries as of January 30, 1999, and January 31, 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended January 30, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J. C. Penney Company, Inc. and Subsidiaries as of January 30, 1999, and January 31, 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended January 30, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

KPMG LLP
Dallas, Texas
February 25, 1999

J. C. Penney Company, Inc. and Subsidiaries

($ in millions)	1998	1997	1996
Revenue			
Retail sales, net	$ 29,656	$ 29,618	$ 22,653
Direct marketing revenue	1,022	928	818
Total revenue	30,678	30,546	23,471
Costs and expenses			
Cost of goods sold	21,761	21,385	16,058
Drugstore inventory integration losses	98	45	31
Total cost of goods sold	21,859	21,430	16,089
Selling, general, and administrative expenses	6,530	6,473	5,282
Costs and expenses of Direct Marketing	789	714	632
Other unallocated	(26)	(39)	(45)
Net interest expense and credit operations	480	547	278
Amortization of intangible assets	113	117	23
Other charges, net	(22)	379	303
Total costs and expenses	29,723	29,621	22,562
Income before income taxes	955	925	909
Income taxes	361	359	344
Net income	$ 594	$ 566	$ 565

Earnings per common share

(in millions, except per share data)	Income	Average Shares	EPS
1998			
Net income	$ 594		
Less preferred stock dividends	(38)		
Basic EPS	556	253	$ 2.20
Stock options and convertible preferred stock	37	18	
Diluted EPS	$ 593	271	$ 2.19
1997			
Net income	$ 566		
Less preferred stock dividends	(40)		
Basic EPS	526	247	$ 2.13
Stock options and convertible preferred stock	36	21	
Diluted EPS	$ 562	268	$ 2.10
1996			
Net income	$ 565		
Less preferred stock dividends	(40)		
Basic EPS	525	226	$ 2.32
Stock options and convertible preferred stock	35	22	
Diluted EPS	$ 560	248	$ 2.25

See Notes to the Consolidated Financial Statements on pages 26 through 39.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

J. C. Penney Company, Inc. and Subsidiaries

($ in millions)	Common Stock	Preferred Stock	Guaranteed LESOP Obligation	Reinvested Earnings	Accumulated Other Comprehensive Income/(Loss)[1]	Total Stockholders' Equity
January 27, 1996	$ 1,112	$ 603	$ (228)	$ 4,339	$ 58	$ 5,884
Net income				565		565
Net unrealized change in investments					(18)	(18)
Currency translation adjustments					(3)	(3)
Total comprehensive income				565	(21)	544
Dividends declared				(511)		(511)
Common stock issued	350					350
Common stock retired	(46)			(320)		(366)
Preferred stock retired		(35)				(35)
LESOP payment			86			86
January 25, 1997	1,416	568	(142)	4,073	37	5,952
Net income				566		566
Net unrealized change in investments					14	14
Currency translation adjustments					(3)	(3)
Total comprehensive income				566	11	577
Dividends declared				(573)		(573)
Common stock issued	1,350					1,350
Preferred stock retired		(42)				(42)
LESOP payment			93			93
January 31, 1998	2,766	526	(49)	4,066	48	7,357
Net income				594		594
Net unrealized change in investments					(1)	(1)
Currency translation adjustments[2]					(61)	(61)
Total comprehensive income				594	(62)	532
Dividends declared				(588)		(588)
Common stock issued	140					140
Common stock retired	(56)			(214)		(270)
Preferred stock retired		(51)				(51)
LESOP payment			49			49
January 30, 1999	$ 2,850	$ 475	$ –	$ 3,858	$ (14)	$ 7,169

(1) Net unrealized changes in investment securities are shown net of deferred taxes of $36 million, $39 million, and $30 million, respectively. A deferred tax asset has not been established for currency translation adjustments.

(2) 1998 currency translation adjustments include $(49) million associated with assets acquired and liabilities assumed in the purchase of Renner.

See Notes to the Consolidated Financial Statements on pages 26 through 39.

CONSOLIDATED BALANCE SHEETS

J. C. Penney Company, Inc. and Subsidiaries

($ in millions)	1998	1997
Assets		
Current assets		
Cash (including short-term investments of $95 and $208)	$ 96	$ 287
Retained interest in JCP Master Credit Card Trust	415	1,073
Receivables, net (bad debt reserve of $149 and $135)	4,415	3,819
Merchandise inventory (including LIFO reserves of $227 and $225)	6,031	6,162
Prepaid expenses	168	143
Total current assets	11,125	11,484
Property, plant, and equipment		
Land and buildings	3,109	2,993
Furniture and fixtures	4,045	4,089
Leasehold improvements	1,179	1,192
Accumulated depreciation	(2,875)	(2,945)
Property, plant, and equipment, net	5,458	5,329
Investments, principally held by Direct Marketing	1,961	1,774
Deferred policy acquisition costs	847	752
Goodwill and other intangible assets, net (accumulated amortization of $221 and $108)	2,933	2,940
Other assets	1,314	1,214
Total Assets	**$ 23,638**	**$ 23,493**

Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	$ 3,465	$ 4,059
Short-term debt	1,924	1,417
Current maturities of long-term debt	438	449
Deferred taxes	143	116
Total current liabilities	5,970	6,041
Long-term debt	7,143	6,986
Deferred taxes	1,517	1,325
Insurance policy and claims reserves	946	872
Other liabilities	893	912
Total Liabilities	16,469	16,136
Stockholders' Equity		
Preferred stock: authorized, 25 million shares; issued and outstanding, 0.8 million and 0.9 million shares Series B ESOP Convertible Preferred	475	526
Guaranteed LESOP obligation	–	(49)
Common stock, par value 50 cents: authorized, 1,250 million shares; issued and outstanding 250 million and 251 million shares	2,850	2,766
Reinvested earnings	3,858	4,066
Accumulated other comprehensive income/(loss)	(14)	48
Total Stockholders' Equity	7,169	7,357
Total Liabilities and Stockholders' Equity	**$ 23,638**	**$ 23,493**

See Notes to the Consolidated Financial Statements on pages 26 through 39.

J. C. Penney Company, Inc. and Subsidiaries

($ in millions)	1998	1997	1996
Operating Activities			
Net income	$ 594	$ 566	$ 565
Gain on the sale of banking assets	–	(52)	–
Other charges, net	(22)	371	310
Depreciation and amortization, including intangible assets	637	584	381
Deferred taxes	219	1	(18)
Change in cash from:			
Customer receivables	258	215	(172)
Inventory, net of trade payables	64	(395)	(521)
Current taxes payable	(171)	116	31
Other assets and liabilities, net	(521)[1]	(188)	(194)
	1,058	1,218	382
Investing Activities			
Capital expenditures	(744)	(824)	(704)
Proceeds from the sale of banking assets, net	–	276	–
Acquisitions[2]	(247)	–	(1,776)
Purchase of investment securities	(611)	(401)	(471)
Proceeds from the sale of investment securities	447	252	493
	(1,155)	(697)	(2,458)
Financing Activities			
Change in short-term debt	507	(2,533)	2,401
Proceeds from the issuance of long-term debt	644	2,990	596
Payment of long-term debt	(478)	(343)	(133)
Common stock issued, net	89	79	33
Common stock purchased and retired	(270)	–	(366)
Dividends paid, preferred and common	(586)	(558)	(497)
	(94)	(365)	2,034
Net Increase/(Decrease) in Cash and Short-Term Investments	(191)	156	(42)
Cash and short-term investments at beginning of year	287	131	173
Cash and Short-Term Investments at End of Year	$ 96	$ 287	$ 131
Supplemental Cash Flow Information			
Interest paid	$ 649	$ 571	$ 390
Interest received	45	71	60
Income taxes paid	307	225	356

(1) The increase in other assets and liabilities, net, is principally related to increases in Eckerd receivables and payments related to reserves established in 1997.

(2) Reflects total cash changes related to acquisitions.

Non-cash transactions: In 1997, the Company issued 23.2 million shares of common stock having a value of $1.3 billion to complete the acquisition of Eckerd. In 1996, the Company issued 5.2 million shares of common stock having a value of $278 million for the acquisition of Fay's Incorporated.

See Notes to the Consolidated Financial Statements on pages 26 through 39.

Notes to the Consolidated Financial Statements

1 SUMMARY OF ACCOUNTING POLICIES

Basis of presentation. Certain prior year amounts have been reclassified to conform to the current year presentation.

Basis of consolidation. The consolidated financial statements present the results of J. C. Penney Company, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Definition of fiscal year. The Company's fiscal year ends on the last Saturday in January. Fiscal 1998 ended January 30, 1999; fiscal 1997 ended January 31, 1998; and fiscal 1996 ended January 25, 1997. Fiscal 1997 was a 53-week year; fiscal 1998 and 1996 were 52-week years. The accounts of Direct Marketing and Renner are on a calendar-year basis.

Retail sales, net. Retail sales include merchandise and services, net of returns, and exclude all taxes.

Direct marketing revenue. Premium income for life insurance contracts is recognized as income when due. Premium income for accident and health, and credit insurance and membership services income is reported as earned over the coverage period. Premiums and fees paid in advance are deferred and recognized as income over the coverage period.

Earnings per common share. Basic earnings per share is computed by dividing net income less dividend requirements on the Series B ESOP convertible preferred stock, net of tax, by the weighted average common stock outstanding. Diluted earnings per share assumes the exercise of stock options and the conversion of the Series B ESOP convertible preferred stock into the Company's common stock. Additionally, it assumes adjustment of net income for the additional cash requirements, net of tax, needed to fund the ESOP debt service resulting from the assumed replacement of the preferred dividends with common stock dividends.

Cash and short-term investments. The Company's short-term investments are comprised principally of commercial paper which has a maturity at the acquisition date of less than three months. All other securities are classified as investments on the consolidated balance sheets.

Accounts receivable. The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write-off, and recoveries are applied as a reduction of bad debt losses.

Merchandise inventory. Substantially all merchandise inventory is valued at the lower of cost (last-in, first-out) or market, determined by the retail method. The Company determines the lower of cost or market on an aggregated basis for similar types of merchandise. The Company applies internally developed indices to measure increases and decreases in its own retail prices.

Depreciation and amortization. All long-lived assets are amortized on a straight-line basis over their respective useful lives. The primary useful life for buildings is 50 years, and ranges from three to 20 years for furniture and equipment. Improvements to leased premises are amortized over the expected term of the lease or their estimated useful lives, whichever is shorter. Trade name and goodwill are generally amortized over 40 years. Other intangible assets, whose fair value is determined at the date of acquisition, are amortized over periods ranging from five to seven years.

Impairment of assets. The Company assesses the recoverability of asset values, including goodwill and other intangible assets, on a periodic basis by comparing expected cash flows to net book value. Impaired assets are written down to estimated fair value.

Deferred charges. Deferred policy acquisition and advertising costs, principally solicitation and marketing costs and commissions, incurred by Direct Marketing to secure new business are amortized over the expected premium-paying period of the related policies and over the expected period of benefits for memberships.

Capitalized software costs. Costs associated with the acquisition or development of software for internal use are capitalized and amortized over the expected useful life of the software. The amortization period generally ranges from three to 10 years.

Investments. The Company's investments are classified as available-for-sale and are carried at fair value. Changes in unrealized gains and losses are included in other comprehensive income, net of applicable income taxes.

Insurance policy reserves. Liabilities established by Direct Marketing for future policy benefits are computed using a net level premium method including assumptions as to investment yields, mortality, morbidity, and persistency based on the Company's experience.

Advertising. Costs for newspaper, television, radio, and other media advertising are expensed as incurred. Catalog book preparation and printing costs, which are considered direct response advertising, are charged to expense over the life of the catalog, not to exceed six months.

Pre-opening expenses. Costs associated with the opening of new stores are expensed in the period incurred.

Derivative financial instruments. The Company selectively uses non-leveraged, off-balance-sheet derivative instruments to manage its market and interest rate risk, and does not hold derivative positions for trading purposes. The current derivative position consists of a non-leveraged, off-balance-sheet interest rate swap which is accounted for by recording the net interest received or paid as an adjustment to interest expense on a current basis. Gains or losses resulting from market movements are not recognized.

Use of estimates. Certain amounts included in the Company's consolidated financial statements are based upon estimates. Actual results may differ from these estimates.

New accounting rules. The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (FAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, in June 1998. The new rules are effective for quarters beginning after June 15, 1999. The Company has a limited exposure to derivative products and does not expect these new rules to have a material impact on reported results.

The American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, in March 1998. The Company adopted the new rules in 1998 and capitalized approximately $20 million of software development costs during the year. Due to the significance of systems development costs, it is expected that capitalized software costs will increase over the next several years.

The AICPA also issued SOP No. 98-5, *Reporting on the Costs of Start-Up Activities*, in April 1998. The Company adopted the new accounting rules in 1998. The new rules require that start-up costs, including store pre-opening expenses, be expensed as incurred. The Company's existing accounting policy conforms with the new rules; accordingly, there was no impact on the Company's results of operation.

2 RETAINED INTEREST IN JCP MASTER CREDIT CARD TRUST

The Company has transferred portions of its customer receivables to a trust which, in turn, has sold certificates in public offerings representing undivided interests in the trust. As of January 30, 1999, $1,143 million of the certificates were outstanding and the balance of the receivables in the trust was $1,578 million. The Company owns the remaining undivided interest in the trust not represented by the certificates.

The retained interest in the trust is accounted for as an investment in accordance with FAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The carrying value of $415 million in 1998 and $1,073 million in 1997 includes a valuation reserve of $15 million and $40 million, respectively. Due to the short-term nature of this investment, the carrying value approximates fair value.

3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

	1998		1997	
($ in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Fixed income securities	$ 1,269	$ 1,322	$ 1,126	$ 1,167
Asset-backed certificates	431	449	431	459
Equity securities	159	190	113	148
Total	$ 1,859	$ 1,961	$ 1,670	$ 1,774

Investments. The Company's investments are recorded at fair value based on quoted market prices and consist principally of fixed income and equity securities, substantially all of which are held by Direct Marketing, and asset-backed certificates. The majority of the fixed income securities mature during the next ten years. Unrealized gains and losses are included in stockholders' equity, net of tax, and are shown as a component of other comprehensive income.

Financial liabilities. Financial liabilities are recorded in the consolidated balance sheets at historical cost, which approximates fair value. Such fair values are not necessarily indicative of actual market transactions. The fair value of long-term debt, excluding capital leases, is based on the interest rate environment and the Company's credit rating. All long-term debt is fixed rate and therefore the Company is not exposed to fluctuations in market rates except to the extent described in the following paragraph.

Derivative financial instruments. The Company's current derivative position consists of one interest rate swap which was entered into in connection with the issuance of asset-backed certificates in 1990. This swap helps to protect certificate holders by reducing the effects of an early amortization of the

principal. According to the terms of the swap, the Company pays fixed interest at 9.625 per cent and receives variable interest based on floating commercial paper rates. The Company's total exposure resulting from the swap is not material. As discussed in Note 1, the net amount paid or received is included in interest expense.

Concentrations of credit risk. The Company has no significant concentrations of credit risk. Individual accounts comprising accounts receivable are widely dispersed and investments are well diversified.

4 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

($ in millions)	1998	1997
Trade payables	$ 1,496	$ 1,551
Accrued salaries, vacation, and bonus	444	487
Taxes payable	232	486
Interest payable	165	165
Common dividends payable	140	136
Other[1]	988	1,234
Total	$ 3,465	$ 4,059

(1) Includes $110 million and $216 million for 1998 and 1997, respectively, related to other charges, principally future lease obligations.

5 SHORT-TERM DEBT

($ in millions)	1998	1997
Commercial paper	$ 1,924	$ 1,417
Average interest rate at year-end	5.1%	5.6%

Committed bank credit facilities available to the Company as of January 30, 1999 totaled $3.0 billion. The facilities, as amended and restated in 1998, support the Company's short-term borrowing program and are comprised of a $1.5 billion, 364-day revolver and a $1.5 billion, five-year revolver. The 364-day revolver includes a $750 million seasonal credit line for the August to January period, allowing the Company to match its seasonal borrowing requirements. None of the borrowing facilities was in use as of January 30, 1999.

The Company also has $910 million of uncommitted credit lines in the form of letters of credit with seven banks to support its direct import merchandise program. As of January 30, 1999, $280 million of letters of credit issued by the Company were outstanding.

6 LONG-TERM DEBT

($ in millions)	Jan. 30, 1999 Avg. Rate	Jan. 30, 1999 Balance	Jan. 31, 1998 Avg. Rate	Jan. 31, 1998 Balance
Notes and debentures				
Due Year 1	8.0%	$ 424	5.4%	$ 400
Due Year 2	6.7%	625	6.9%	225
Due Year 3	9.1%	250	6.7%	625
Due Year 4	7.5%	1,100	9.1%	250
Due Year 5	5.8%	1,000	7.5%	1,100
Due 6-10 years	8.0%	1,441	7.8%	1,760
Due 11-15 years	9.0%	125	8.0%	325
Due 16-20 years	7.6%	767	7.7%	780
Due 21-30 years	7.5%	875	7.5%	887
Due thereafter	7.5%	900	7.5%	900
Total notes and debentures	7.4%	7,507	7.5%	7,252
Guaranteed LESOP notes, due 1998		–		49
Capital lease obligations and other		74		134
Less current maturities		(438)		(449)
Total long-term debt		$ 7,143		$ 6,986

During 1998, JCP Receivables, Inc., an indirect wholly owned special purpose subsidiary of the Company, completed a public offering of $650 million aggregate principal amount of Series E asset-backed certificates of JCPenney Master Credit Card Trust. The certificates have a maturity of five years and an interest rate of 5.5 per cent. This transaction did not meet the criteria for sale accounting under FAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, and accordingly it was recorded as a secured borrowing by the Company. Proceeds from the offering were used for general corporate purposes. In 1997, the Company issued $3.0 billion of debt in connection with its drugstore acquisitions. These notes and debentures had an average maturity of 30 years and an average interest rate of 7.5 per cent. All notes and debentures have similar characteristics regardless of due date and therefore are grouped by maturity date.

7 CAPITAL STOCK

At January 30, 1999, there were approximately 56 thousand stockholders of record. On a combined basis, the Company's savings plans, including the Company's employee stock ownership plan (ESOP), held 43.4 million shares of common stock, or 16.3 per cent of the Company's common shares after giving effect to the conversion of preferred stock.

Common stock. The Company has authorized 1,250 million shares, par value $.50; 250 million shares were issued and outstanding as of January 30, 1999, and 251 million shares were issued and outstanding as of January 31, 1998.

Preferred stock. The Company has authorized 25 million shares; 792 thousand shares of Series B ESOP Convertible Preferred Stock were issued and outstanding as of January 30, 1999, and 876 thousand shares were issued and outstanding as of January 31, 1998. Each share is convertible into 20 shares of the Company's common stock at $30 per common share. Dividends are cumulative and are payable semi-annually at a rate of $2.37 per common share equivalent, a yield of 7.9 per cent. Shares may be redeemed at the option of the Company or the ESOP under certain circumstances. The redemption price may be satisfied in cash or common stock or a combination of both, at the Company's sole discretion.

Preferred stock purchase rights. In March 1999, the Board of Directors declared a dividend distribution of one preferred stock purchase right on each outstanding share of common stock in connection with the redemption of the Company's then existing preferred stock purchase rights program. These rights entitle the holder to purchase, for each right held, 1/1000 of a share of Series A Junior Participating Preferred Stock at a price of $140. The rights are exercisable by the holder upon the occurrence of certain events and are redeemable by the Company under certain circumstances as described by the rights agreement. The rights agreement contains a three-year independent director evaluation provision. This "TIDE" feature provides that a committee of the Company's independent directors will review the rights agreement at least every three years and, if they deem it appropriate, may recommend to the Board a modification or termination of the rights agreement.

8 STOCK-BASED COMPENSATION

The Company has a stock-based compensation plan which was approved by stockholders in 1997. The plan reserved 14 million shares of common stock for issuance to plan participants upon the exercise of options over the 10-year term of the plan. Approximately 2,000 employees, comprised principally of selected management employees, are eligible to participate. Both the number of shares and the exercise price, which is based on the average market price, are fixed at the date of grant and have a maximum term of 10 years. The plan also provides for grants of stock options and stock awards to outside members of the Board of Directors. Shares acquired by such directors are not transferable until a director terminates service.

The Company accounts for stock-based compensation under the provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, net income and earnings per share shown in the consolidated statements of income appearing on page 22 do not reflect any compensation cost for the Company's fixed stock options. In accordance with FAS No. 123, *Accounting for Stock-Based Compensation*, the fair value of each fixed option granted is estimated on the date of grant using the Black-Scholes option pricing model, as follows:

Option assumptions

	1998	1997	1996
Dividend yield	3.8%	4.0%	3.9%
Expected volatility	20.5%	21.3%	22.3%
Risk-free interest rate	5.7%	6.3%	5.6%
Expected option term	6 years	6 years	5 years
Fair value per share of options granted	$ 13.66	$ 9.76	$ 8.88

Compensation expense recorded under FAS No. 123 would have been approximately $21 million in 1998 and $11 million in 1997 and 1996, reducing earnings per share by eight cents in 1998, and approximately four cents in the other two years. The following table summarizes the status of the Company's fixed stock option plans for the years ended January 30, 1999, January 31, 1998, and January 25, 1997:

Options

(shares in thousands, price is weighted average)	1998 Shares	1998 Price	1997 Shares	1997 Price	1996 Shares	1996 Price
Beginning of year	7,583	$ 40	8,633	$ 36	8,867	$ 33
Granted	1,643	71	1,413	45	1,266	48
Exercised	(2,100)	(36)	(2,347)	(30)	(1,427)	(27)
Expired and cancelled	(154)	(61)	(116)	(48)	(73)	(42)
Outstanding at end of year	6,972	48	7,583	40	8,633	36
Exercisable at end of year	5,418	41	6,428	38	7,419	35

Options as of January 30, 1999

	Outstanding			Exercisable	
(shares in thousands, price and remaining term are weighted averages)	Shares	Price	Remaining Term (Yrs.)	Shares	Price
Under $25	83	$ 9	4.6	83	$ 9
$25-$35	1,761	28	2.3	1,761	28
$35-$45	998	42	5.7	980	42
$45-$55	1,842	48	7.6	1,842	48
Over $55	2,288	66	8.2	752	55
Total	6,972	$ 48	6.0	5,418	$ 41

9 INTEREST EXPENSE, NET

($ in millions)	1998	1997	1996
Short-term debt	$ 106	$ 121	$ 102
Long-term debt	557	527	312
Other, net*	(52)	(67)	(55)
Interest expense, net	$ 611	$ 581	$ 359

*Includes $39 million in 1998 and $34 million in 1997 and 1996 for interest income from the Company's investment in asset-backed certificates.

10 LEASE COMMITMENTS

The Company conducts the major part of its operations from leased premises that include retail stores, warehouses, offices, and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises. Rent expense for real property operating leases totaled $585 million in 1998, $541 million in 1997, and $333 million in 1996, including contingent rent based on sales of $66 million, $72 million, and $48 million for the three years, respectively.

The Company also leases data processing equipment and other personal property under operating leases of primarily three to five years. Rent expense for personal property leases was $123 million in 1998, $126 million in 1997, and $106 million in 1996.

Future minimum lease payments for noncancelable operating and capital leases, net of subleases, as of January 30, 1999 were:

($ in millions)	Operating	Capital
1999	$ 565	$ 11
2000	510	11
2001	440	11
2002	408	6
2003	384	1
Thereafter	2,841	–
Total minimum lease payments	$ 5,148	$ 40
Present value	$ 2,715	$ 35
Weighted average interest rate	10%	10%

Minimum lease payments are shown net of estimated executory costs, principally real estate taxes, maintenance, and insurance.

11 ADVERTISING COSTS

Advertising costs consist principally of newspaper, television, radio, and catalog book costs. In 1998, the total cost of advertising was $1,077 million compared with $977 million in 1997, and $988 million in 1996. The "other assets" section of the consolidated balance sheets includes deferred catalog book costs of $87 million as of January 30, 1999, and $89 million as of January 31, 1998.

12 RETIREMENT PLANS

The Company's retirement plans consist principally of a noncontributory pension plan, a noncontributory supplemental retirement program for certain management associates, a contributory medical and dental plan, and a savings plan, including a 401(k) plan and an employee stock ownership plan. In addition, in 1998, the Company adopted two nonqualified savings plans. Pension plan assets are invested in a balanced portfolio of equity and debt securities managed by third party investment managers. In addition, Eckerd has a noncontributory pension plan. As of January 1, 1999, all Eckerd retirement benefit plans were frozen and all employees began to accrue benefits under the Company's retirement plans. The following tables include the benefit obligation related to the Company's early retirement program (see Note 13, page 33, for additional information). The cost of these programs and the December 31 balances of plan assets and obligations are shown below:

Expense

($ in millions)	1998	1997	1996
Pension and health care			
Service cost	$ 76	$ 68	$ 73
Interest cost	221	200	186
Projected return on assets	(283)	(488)	(386)
Net amortization	14	248	174
	28	28	47
Savings plan expense	76	71	56
Total retirement plans	$ 104	$ 99	$ 103

Assumptions

	1998	1997	1996
Discount rate	6.75%	7.25%	8.0%
Expected return on plan assets	9.5%	9.5%	9.5%
Salary progression rate	4.0%	4.0%	4.0%
Health care trend rate	7.0%	7.0%	7.0%

Assets and obligations

Pension plans*

($ in millions)	1998	1997
Projected benefit obligation		
Beginning of year	$ 2,749	$ 2,187
Service and interest cost	273	243
Actuarial (gain)/loss	184	400
Benefits paid	(200)	(210)
Amendments and other	–	129
End of year	3,006	2,749
Fair value of plan assets		
Beginning of year	3,064	2,735
Company contributions	32	29
Net gains/(losses)	497	510
Benefits paid	(200)	(210)
End of year	3,393	3,064
Excess of fair value over projected benefits	387	315
Unrecognized gains and prior service cost	75	125
Prepaid pension cost	$ 462	$ 440

** Includes supplemental retirement plan.*

Medical and dental

($ in millions)	1998	1997
Accumulated benefit obligation	$ 334	$ 335
Net unrecognized losses	10	13
Net medical and dental liability	$ 344	$ 348

A one per cent change in the health care trend rate would change the accumulated benefit obligation and expense by approximately $24 million and $2 million, respectively.

13 OTHER CHARGES, NET

During 1996 and 1997, the Company recorded other charges principally related to drugstore integration activities, department store closings and FAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* (FAS 121), impairments, and early retirements and reduction in force programs. The following tables provide a summary of the charges by year and by category as well as a roll forward of reserves that were established for certain of the charges.

1996 Charges

	1996			
($ in millions)	Expense	Cash Outlays	Other Changes	Y/E Reserve
Department stores and catalog				
Reduction in force	$ 11	$ (11)	$ –	$ –
Eckerd drugstores				
FAS 121 impairments and loss on the divestiture of drugstore assets[1]	174	–	(174)	–
Future lease obligations and severance[2]	69	–	–	69
Allowance for notes receivable[3]	–	–	25	25
Headquarters severance[2]	17	–	–	17
Other[2]	32	(12)	(16)	4
	292	(12)	(165)	115
Total	$ 303	$ (23)	$ (165)	$ 115

	1996	1997			1998		
($ in millions)	Y/E Reserve	Cash Outlays	Other Changes	Y/E Reserve	Cash Outlays	Other Changes	Y/E Reserve
Eckerd drugstores							
Future lease obligations and severance[2]	$ 69	$ (3)	$ –	$ 66	$ (7)	$ –	$ 59
Allowance for notes receivable[3]	25	–	–	25	–	–	25
Headquarters severance[2]	17	(16)	–	1	(1)	–	–
Other[2]	4	–	–	4	–	–	4
Total	$ 115	$ (19)	$ –	$ 96	$ (8)	$ –	$ 88

(1) Charges related to FAS 121 impairments were recorded as a reduction of property, plant, and equipment balances.

(2) Reserve balances are included as a component of accounts payable and accrued expenses

(3) The allowance for notes receivable is included as a reduction of receivables, net

Department stores and catalog

Reduction in force. As part of the Company's ongoing program to reduce the cost structure for stores and catalog and improve the Company's competitive position and future performance, it announced the elimination of 119 store and field support positions in September 1996, all of which were subsequently eliminated. Subsequent periods benefited from the elimination of related salary costs. The charges, which were expensed and paid in the fourth quarter of 1996, related to severance and outplacement.

Eckerd drugstores

FAS 121 impairments and loss on the divestiture of drugstore assets. In the fourth quarter of 1996, the Company recorded $174 million of charges associated with the Eckerd acquisition. This amount was comprised of the following components: 1) $53 million related to the closing of certain underperforming and/or overlapping drugstores; 2) $96 million related to the divestiture of certain Rite Aid and Kerr drugstores; and 3) $25 million related principally to the write-off of goodwill associated with previous acquisitions. Each of these items is discussed in more detail below:

1) In October 1996, the Company acquired Fay's Incorporated (Fay's), a chain of approximately 270 drugstores. Also in October 1996, Thrift Drug, Inc., a wholly owned subsidiary of the Company, entered into an agreement to acquire substantially all of the assets of approximately 190 Rite Aid drugstores in North and South Carolina. At the time of the acquisition, no significant changes to the operations of these stores were expected. In November 1996, the Company entered into an agreement to acquire Eckerd, a chain of 1,748 drugstores. Upon entering into the agreement to acquire Eckerd, the Company began to plan for the integration of its approximately 1,100 existing drugstores into the Eckerd name and format. The integration plan provided for, among other things, the closing of 86 overlapping and/or underperforming Thrift and Fay's drugstores, all of which were leased facilities. These stores had a sales base of approximately $130 million and operating losses of approximately $9 million before non-cash operating expenses, such as depreciation. During 1997, 64 stores were closed. The remaining store closings were delayed into fiscal 1998 to facilitate a timely and orderly transition between the operations of the stores to be closed and the surrounding stores that were to remain open and operating. All stores were closed as of the end of fiscal 1998.

A FAS 121 impairment charge of $53 million related to these stores was recorded by the Company in 1996. Impaired assets consisted primarily of store fixtures and leasehold improvements. Since these assets could not readily be used at other store locations and no ready market existed outside the Company, they were discarded at the time of closing. Accordingly, the impairment charge recorded for these assets represented their carrying value as of the end of fiscal 1996. Asset values were reduced to zero and as a result, depreciation was discontinued. The stores were operating at a loss and continued to do so subsequent to the FAS 121 impairment charge. Operating results for the individual stores were included in operations through the date of closing. There were no significant changes to the Company's initial estimate of impairment.

2) As a condition of its approval of the Eckerd acquisition, the Federal Trade Commission (FTC) required that the Company divest itself of 164 stores (divested stores) in North and South Carolina (consisting of both Rite Aid and Kerr drugstores) to a single buyer to maintain adequate competition in the two states. Pursuant to the FTC agreement, the consummation of the acquisition of the Rite Aid stores was delayed until the Company entered into an agreement to sell the divested stores. Ultimately, the Company entered into an agreement with a former member of Thrift management and other parties to sell the divested stores for $75 million ($42 million in cash and $33 million in notes receivable). The Company recognized a FAS 121 impairment charge of $75 million related to the Rite Aid stores. The impairment charge was necessary as the undiscounted cash flows for these units were not sufficient to support recorded asset values, including furniture and fixtures and other intangibles. The amount of the impairment charge was determined based on the difference between the fair value of the assets, as calculated through discounted expected cash flows, and the carrying amount for those assets. In addition, the Company recorded a loss of $21 million related to the divestiture of the Kerr stores. These 34 Kerr stores had a sales base of approximately $59 million and operating income of approximately $3 million before non-cash operating expenses.

3) As part of the acquisition of Eckerd, the decision was made to operate all drugstores under the Eckerd name and format. Consequently, goodwill in the amount of $10 million, which had been allocated under purchase accounting to the Fay's trade name, was determined to have no value. In addition, the Company recorded an impairment charge of $15 million related to goodwill associated with unprofitable business units operated by the former drugstore operations.

Future lease obligations and severance. In connection with these drugstore closings and the sale of divested stores, the Company established a $69 million reserve for the present value of future lease obligations. The store closing plan anticipated that Eckerd would remain liable for all future lease payments. The present value of future lease obligations was calculated using a 6.7 per cent discount rate and anticipated no subleasing activity or lease buyouts. Costs are being charged against the reserve as incurred; the interest component related to lease payments is recorded as rent expense with no corresponding increase in the reserve. Payments during the next five years are expected to be approximately $2 million per year. These reserves will be assessed periodically to determine their adequacy. No changes have been deemed necessary through the end of 1998.

Approximately 1,150 store employees, including store managers as well as salaried and non-salaried personnel, were terminated as a result of store closings.

Allowance for notes receivable. A portion of the proceeds related to the sale of the divested stores was financed by the Company through a note receivable of $33 million. The FTC agreement provided that the Company could not maintain a continuing interest in the divested stores. This placed significant constraints on the Company's ability to collect on the note which remains uncertain. Consequently, a reserve for 75 per cent ($25 million) of the face value of the note receivable was established. This reserve is reviewed for adequacy on a periodic basis. No adjustments have been deemed necessary through the end of 1998.

Headquarters severance. A reserve of $17 million was established for termination benefits related to the elimination of the Thrift headquarters and certain support facilities upon the acquisition of Eckerd. Approximately 400 employees were affected by the plan to eliminate these functions, which included all levels of Thrift management and administrative staff. Ultimately, 436 employees were terminated under this program, with the majority of the employees being terminated during 1997. Actual termination costs were charged against the reserve as incurred with $16 million being incurred and charged against the reserve in 1997. The program has been completed and no adjustments were required to the reserve.

Other. The principal component of other integration charges was $15 million related to the change of the Thrift accounting policy for certain contractual vendor payments to a more preferable accounting method. This item was established as unearned income on the consolidated balance sheet as of year-end 1996 and is being recognized over the contract terms through the year 2002. The remaining $17 million, the majority of which was expensed as incurred, was related to integration activities for the Fay's stores and other activities such as contract terminations.

1997 Charges

	1997			
($ in millions)	Expense	Cash Outlays	Other Changes	Y/E Reserve
Department stores and catalog				
Early retirement[1]	$ 151	$ (1)	$ (150)	$ –
Reduction in force[2]	55	–	–	55
FAS 121 impairments[3]	72	–	(72)	–
Future lease obligations and severance[2]	61	(6)	–	55
	339	(7)	(222)	110
Sale of business units	(63)	63	–	–
Eckerd drugstores				
Store integration	61	(61)	–	–
Systems integration	26	(26)	–	–
Advertising/grand reopening	26	(26)	–	–
Future obligations, primarily leases[2]	37	(2)	–	35
Gain on the sale of institutional pharmacy	(47)	47	–	–
	103	(68)	–	35
Total	$ 379	$ (12)	$ (222)	$ 145

	1997	1998		
($ in millions)	Y/E Reserves	Cash Outlays	Other Changes	Y/E Reserve
Department stores and catalog				
Reduction in force[2]	$ 55	$ (44)	$ (11)	$ –
Future obligations and severance[2]	55	(24)	(11)	20
	110	(68)	(22)	20
Eckerd drugstores				
Future obligations, primarily leases[2]	35	(8)	–	27
Total	$ 145	$ (76)	$ (22)	$ 47

(1) The early retirement program was reflected in the 1997 year end balance sheet as follows $58 million in enhanced pension benefits was credited against prepaid pension assets which are included in other assets, $5 million of retiree medical liability and $85 million for the new non-qualified retirement plan are included in other liabilities; and such amounts are included in retirement plan disclosures in Note 12 on page 32. In addition, $2 million of plan administration costs was included in accounts payable and accrued expenses in 1997.

(2) Reserve balances are included as a component of accounts payable and accrued expenses.

(3) Charges related to FAS 121 impairments were recorded as a reduction of property, plant, and equipment balances

Department stores and catalog

As part of the Company's initiatives to reduce the cost structure for department stores and catalog and improve the Company's competitive position and future performance, the following actions were taken in the third and fourth quarters of 1997:

Early retirement. In August 1997 the Company announced a voluntary early retirement program (Program) to all department stores, catalog, and corporate support management employees who were age 55 or older and had at least 10 years of service. Approximately 1,600 employees were eligible to participate in the program, and approximately 1,245, or 78 per cent, elected to retire under the Program. The charge of $151 million includes $158 million of termination benefits that were actuarially calculated based on the employees electing to retire under the Program (representing lump-sum payments as well as the present value of periodic future payments determined at a discount rate of 7.5%), $5 million of actuarially calculated post retirement welfare benefits, and $3 million of outside consulting and administration costs. These costs were offset by a $15 million pension curtailment gain which was the result of a decrease in the projected benefit obligation (PBO) of the Company's qualified pension plan. The PBO was reduced due to the elimination of the liability for future salary increases resulting from the early termination of employees who elected to retire under the Program. Of the $3 million of outside consulting and administrative costs, approximately $2 million represented cash outlays, and the remainder was reversed in the fourth quarter of 1998. All other amounts recorded under this program are included in Retirement Plans disclosure in Note 12 on page 32.

Reduction in force. In the fourth quarter of 1997, the Company announced a restructuring plan to eliminate approximately 1,700 management employees. The $55 million charge represents severance, outplacement, and other termination benefits offered to all affected associates. There was no cash outlay in 1997 because, while employees were notified of the restructuring plan in the fourth quarter of 1997, they did not leave the Company until 1998. Cash outlays of $44 million in 1998 represent termination benefits paid to the approximately 1,550 employees terminated. The plan was completed in the fourth quarter of 1998 at less cost than originally estimated due in part to employee resignations prior to being involuntarily terminated and employees obtaining positions elsewhere in the Company. Consequently, approximately $11 million was reversed in the fourth quarter of 1998.

FAS 121 impairments. The Company identified 97 underperforming stores that did not meet the Company's profit objectives and several support units (credit service centers and warehouses) which were no longer needed. This unit closing plan (Plan) represents unit closings over and above the normal course of store closures within a given year, which are typically relocations. All units were closed by the end of fiscal 1998. The major actions comprising the Plan consisted of the identification of a closing date (to coincide with termination rights and/or other trigger dates contained in the lease, if applicable), and the notification of affected parties (e.g., employees, landlords, and community representatives) in accordance with the Company's store closing procedures. Substantially all of the stores and support units included in the portfolio were leased, and as such, the Company was not responsible for the disposal of property, other than fixtures, which for

the most part were discarded. Unit closing costs include future lease obligations and termination benefits, and FAS 121 impairments.

Impaired assets resulting from the store closings consist primarily of store furniture and fixtures, and leasehold improvements. The majority of the stores identified for closure were older stores in small markets and the associated furniture and fixtures were outdated. Therefore, these items could not be readily used at another location, and there was not a ready market for these items to determine a fair value. Accordingly, the impairment charge recorded for these assets represents the carrying value of the assets as of the end of fiscal 1997. Depreciation of these assets was discontinued as the impairment charges reduced the asset balances to zero. The stores were operating at a loss and continued to do so subsequent to the FAS 121 impairment charge. There were no significant changes to the Company's initial estimate of impairment.

Future lease obligations and severance. In connection with the above store closings, the Company established a $61 million reserve for the present value of future lease obligations ($31 million) and other store closing costs ($30 million), principally severance and outplacement. The store closing plan anticipated that the Company would remain liable for all future lease payments. Present values were calculated assuming a ten per cent discount rate and anticipated no subleasing activity or lease buyouts. Costs are being charged against the reserve as incurred. The cash outlays in 1997 and 1998 represent severance benefits paid for approximately 1,550 employees terminated under the program, and lease payments for closed stores. The interest component of lease payments of approximately $2 million in 1998 was recorded as interest expense, with a corresponding increase in the reserve, in the fourth quarter of 1998 and future years. The remaining reserve as of the end of 1998 represents future lease obligations for all closed stores. The actual timing of store closings did not differ significantly from the estimate upon which the liability for future lease obligations was based. On average, the remaining lease term for closed stores was seven years, and payments during the next five years are expected to be approximately $4 million per year. Adjustments to the reserves in 1998 included reversals of approximately $5 million due to reduced lease obligations stemming from subleased facilities, and $6 million for employment-related costs. Employment-related costs were less than original estimates as a result of several factors, including voluntary resignations, a higher rate of employee transfers, and the termination of a higher proportion of employees with less tenure with the Company. These reserves will continue to be assessed periodically.

The stores identified for closure were generally those with a poor performance history, and to a large extent, declining sales. The short-term effect of the closings was the net loss of approximately $225 million in sales and the elimination of approximately $15 million in operating losses before non-cash operating charges such as depreciation. The Company expects to realize benefits of approximately $32 million per year as a result of eliminating operating losses associated with the closed stores and the redeployment of working capital.

Sale of business units

A gain on the sale of business units of $63 million was included in the 1997 other charges. JCPenney National Bank (JCPNB), a consumer bank which issued VISA and MasterCard credit cards, was sold in 1997 at a gain of $49 million. In addition, the Company recorded a $14 million gain representing a supplemental, contingent payment related to the 1995 sale of JCPenney Business Services, Inc. (BSI). BSI provided credit-related services to third party credit-card issuers. JCPNB 1996 revenues and operating income were $129 million and $2 million, respectively. The sale of JCPNB did not have a negative impact on the Company's results of operations or financial position in 1997, and it is not expected to have a material impact in future periods.

Eckerd drugstores

The majority of drugstore charges recorded as other charges in 1997 relate to integration activities that were expensed as incurred in accordance with EITF 95-3. Such costs were comprised of the following:

Store integration – charges totaling $61 million related to the conversion of the former Thrift, Fay's, and Kerr stores and certain warehouse facilities to the Eckerd name and format, including training, overhead redundancies during the transition period, and other similar integration-related costs.

Systems integration – costs associated with the conversion of the previously owned drugstores to the Eckerd systems platform totaled $26 million.

Advertising and grand pre-opening – costs associated with introducing the Eckerd name in converted regions as well as costs related to the grand re-opening of converted drugstores totaled $26 million.

In addition, the Company recorded the following drugstore related items as other charges in 1997:

Future obligations, primarily leases. In the second quarter of 1997, as part of the ongoing drugstore integration process, the Company closed 26 additional drugstores. These stores were part of the portfolio of retained Rite Aid stores (see previous discussion). The Company recorded a FAS 121

impairment charge for the store assets in 1996. These closings did not involve any termination benefits. The liability in 1997 was limited to future lease obligations on these stores. The reserve for future lease obligations for these stores is based on the present value of lease obligations through the year 2017. Additionally, in the fourth quarter of 1997, the Company became obligated to make future lease payments for 27 stores that Fay's had sold prior to being acquired by the Company on which the buyer had defaulted and failed to make lease payments. Fay's, and therefore the Company, was contractually obligated to make the lease payments. Accordingly, the Company recorded a charge for future lease obligations on these stores at the time the liability became known. The reserve for future lease obligations on these stores is based on lease payments through the year 2009. A charge of $25 million related to all of these lease obligations was recorded. These events are not expected to have an effect on future sales, and other than future lease obligations, there will be no impact on future operating results as none of the stores operated as part of Thrift drugstores. In addition, an $8 million charge was recorded for liabilities established for pending litigation, and the remaining $4 million relates to other miscellaneous charges, each individually insignificant. As of the end of 1998, these combined reserves totaled $27 million. There have been no adjustments to these liabilities as of the end of 1998.

Gain on the sale of institutional pharmacy. As part of the integration plan, the Company sold its underperforming institutional pharmacy operation in the fourth quarter of 1997 and recorded a gain of $47 million. This operation generated sales of $80 million in 1997.

14 TAXES

Deferred tax assets and liabilities reflected on the Company's consolidated balance sheets were measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The major components of deferred tax (assets)/liabilities as of January 30, 1999 and January 31, 1998 were as follows:

Temporary differences

($ in millions)	1998	1997
Depreciation and amortization	$ 1,084	$ 977
Leases	312	339
Other charges, net	(46)	(139)
Deferred acquisition costs	233	211
Other, including comprehensive income	77	53
Total	$ 1,660	$ 1,441

Income tax expense

($ in millions)	1998	1997	1996
Current			
Federal and foreign	$ 111	$ 319	$ 321
State and local	31	39	43
	142	358	364
Deferred			
Federal and foreign	219	3	(19)
State and local	–	(2)	(1)
	219	1	(20)
Total	$ 361	$ 359	$ 344
Effective tax rate	37.8%	38.8%	37.9%

Reconciliation of tax rates

(per cent of pre-tax income)	1998	1997	1996
Federal income tax at statutory rate	35.0	35.0	35.0
State and local income taxes, less federal income tax benefit	2.2	2.8	3.0
Tax effect of dividends on allocated ESOP shares	(1.4)	(1.3)	(1.3)
Tax credits and other	2.0	2.3	1.2
Total	37.8	38.8	37.9

15 SEGMENT REPORTING

The Company operates in three business segments: department stores and catalog, Eckerd drugstores, and Direct Marketing. The results of department stores and catalog are combined because they generally serve the same customer, have virtually the same mix of merchandise, and the majority of catalog sales are completed in department stores. For more detailed descriptions of each business segment, including products sold, see page 1 and pages 4 through 10 of this report. Other items are shown in the table below for purposes of reconciling to total Company consolidated amounts.

($ in millions)	Year	Revenue	Operating Earnings	Total Assets	Capital Expenditures	Depreciation and Amortization
Department stores and catalog	1998	$19,331	$ 1,013	$ 14,563	$ 439	$ 380
	1997	19,955	1,368	14,980	464	366
	1996	19,506	1,183	14,754	680	325
Eckerd drugstores	1998	10,325	254	6,361	256	138
	1997	9,663	347	6,064	341	112
	1996	3,147	99	4,389	103	41
Direct Marketing	1998	1,022	233	2,603	1	6
	1997	928	214	2,283	5	5
	1996	818	186	1,986	7	6
Total segments	1998	30,678	1,500	23,527	696	524
	1997	30,546	1,929	23,327	810	483
	1996	23,471	1,468	21,129	790	372
Net interest expense and credit operations	1998		(480)			
	1997		(547)			
	1996		(278)			
Other unallocated and amortization of intangible assets	1998		(87)	111		113
	1997		(78)	166		101
	1996		22	959		9
Other charges, net	1998		22			
	1997		(379)			
	1996		(303)			
Total Company	1998	30,678	955	23,638	696	637
	1997	30,546	925	23,493	810	584
	1996	23,471	909	22,088	790	381

Total Company operating earnings equals income before income taxes as shown on the Company's consolidated statements of income.

QUARTERLY DATA (UNAUDITED)

J. C. Penney Company, Inc. and Subsidiaries

	First		Second		Third		Fourth	
($ in millions, except per share data)	1998	1997	1998	1997	1998	1997[1]	1998	1997[1]
Retail sales, net	$ 6,806	$ 6,481	$ 6,510	$ 6,420	$ 7,297	$ 7,208	$ 9,043	$ 9,509
Total revenue	7,052	6,705	6,761	6,649	7,549	7,441	9,316	9,751
LIFO gross margin	1,904	1,804	1,629	1,709	2,015	2,038	2,249	2,637
Net income	174	139	27	90	186	136	207	201
Net income per common share, diluted	0.64	0.53	0.08	0.32	0.68	0.49	0.77	0.76
Dividend per common share	0.545	0.535	0.545	0.535	0.545	0.535	0.545	0.535
Price range:								
High	77 7/8	51 5/8	78 3/4	59	59 3/8	64 1/4	56 1/8	68 1/4
Low	64 11/16	44 7/8	58	45 5/8	42 5/8	54 11/16	38 1/8	53 1/4
Close	71 15/16	45 7/8	58 11/16	57 15/16	47 1/2	56 7/16	39	67 3/8

(1) 3rd and 4th quarter net income and net income per share have been restated to shift $23 million, net of tax, of voluntary early retirement costs from 3rd to 4th quarter. The restatement had no effect on full year net income or net income per share.

FIVE YEAR FINANCIAL SUMMARY

J. C. Penney Company, Inc. and Subsidiaries

(in millions, except per share data)	1998	1997	1996	1995	1994
Results for the year					
Total revenue	$ 30,678	$ 30,546	$ 23,471	$ 21,242	$ 20,937
Retail sales, net	29,656	29,618	22,653	20,562	20,380
Per cent increase	0.1%	30.7%	10.2%	0.9%	7.4%
Net income	594	566	565	838	1,057
Return on beginning stockholders' equity	8.1%	7.9%[1]	9.6%	14.9%	19.7%
Per common share					
Net income, diluted	$ 2.19	$ 2.10	$ 2.25	$ 3.33	$ 4.05
Dividends	2.18	2.14	2.08	1.92	1.68
Stockholders' equity	26.99	27.57	25.67	24.76	23.45
Financial position					
Capital expenditures	696	810	790	749	544
Total assets	23,638	23,493	22,088	17,102	16,202
Long-term debt	7,143	6,986	4,565	4,080	3,335
Stockholders' equity	7,169	7,357	5,952	5,884	5,615
Other					
Common shares outstanding at end of year	250	251	224	224	227
Weighted average common shares					
Basic	253	247	226	226	234
Diluted	271	268	248	249	258
Number of employees at end of year *(in thousands)*	262	260	252	205	202

(1) Assumes the completion of the Eckerd acquisition in beginning equity.

J. C. Penney Company, Inc. and Subsidiaries

	1998	1997	1996	1995	1994
Department stores					
Number of stores					
Beginning of year	1,203	1,228	1,238	1,233	1,246
Openings	12	34	36	43	29
Closings	(67)	(59)	(46)	(38)	(42)
End of year	1,148[1]	1,203	1,228	1,238	1,233
Gross selling space *(in millions)*	115.3	118.4	117.2	114.3	113.0
Sales *(in millions)*	$ 15,402	$ 16,047	$ 15,734	$ 14,973	$ 15,023
Sales including catalog desks *(in millions)*	18,208	19,089	18,694	17,930	18,048
Sales per gross square foot	156	157	159	156	159
Catalog					
Number of catalog units					
Department stores	1,139	1,199	1,226	1,228	1,233
Freestanding sales centers and other	512	554	569	565	568
Drugstores	139	110	107	106	94
Total	1,790	1,863	1,902	1,899	1,895
Sales *(in millions)*	$ 3, 929	$ 3,908	$ 3,772	$ 3,738	$ 3,817
Eckerd drugstores					
Number of stores					
Beginning of year	2,778	2,699	645	526	506
Openings	220[2]	199[2]	47	37	46
Acquisitions	36	200	2,020	97	–
Closings	(278)[2]	(320)[2]	(13)	(15)	(26)
End of year	2,756	2,778	2,699	645	526
Gross selling space *(in millions)*	27.6	27.4	26.4	6.2	4.5
Sales *(in millions)*	$ 10,325	$ 9,663	$ 3,147	$ 1,851	$ 1,540
Sales per gross square foot	350	314	261	253	243
Direct Marketing					
Revenue *(in millions)*	$ 1,022	$ 928	$ 818	$ 680	$ 557
Distribution of revenue					
JCPenney customers	50%	53%	56%	65%	73%
Other non-JCPenney customers	50%	47%	44%	35%	27%
Policies, certificates, and memberships in force at year end *(in millions)*	14.7	13.2	11.3	9.6	7.5

(1) Excludes 21 department stores operated in Brazil under the Renner name.

(2) Includes relocations of 175 drugstores in 1998 and 127 drugstores in 1997.

SUPPLEMENTAL DATA (UNAUDITED)

General. The following information is provided as a supplement to the Company's audited financial statements. Its purpose is to facilitate an understanding of the Company's credit operations, capital structure, and cash flows.

Credit operations. The following presents the results of the Company's proprietary credit card operation and shows both the net cost of credit in support of the Company's retail businesses and the net cost of credit measured on an all-inclusive, economic basis. The "economic basis" of the cost of credit includes the cost of equity capital in addition to debt used to finance accounts receivable balances. The cost of equity capital is based on the Company's minimum return on equity objective of 16 per cent. The results presented below cover all JCPenney credit card accounts receivable serviced.

Pre-tax cost of JCPenney credit card

($ in millions)	1998	1997	1996
Revenue	$ (788)	$ (803)	$ (772)
Bad debt expense	264	356	277
Operating expenses (including in-store costs)	270	281	298
Interest expense on debt financing	262	285	281
Total costs	796	922	856
Pre-tax cost of credit			
Retail operations	8	119	84
Equity capital	131	144	138
Total – economic basis	139	263	222
Per cent of JCPenney credit sales	1.8%	3.0%	2.4%

Department stores and catalog

($ in billions)	1998		1997		1996	
	Sales	Per cent of Eligible Sales	Sales	Per cent of Eligible Sales	Sales	Per cent of Eligible Sales
JCPenney credit card	$ 7.6	39.4%	$ 8.6	43.4%	$ 9.1	46.9%
Third-party credit cards	5.0	26.1%	4.7	23.5%	4.1	21.2%
Total	$ 12.6	65.4%	$ 13.3	66.9%	$ 13.2	68.1%

Key JCPenney credit card information

(in millions, except where noted)	1998	1997	1996
Number of accounts serviced with balances	14.1	16.4	18.9
Total customer receivables serviced	$ 4,149	$ 4,721	$ 5,006
Average customer receivables serviced	$ 4,123	$ 4,576	$ 4,428
Average account balance (in dollars)	$ 295	$ 287	$ 265
Average account maturity (in months)	4.7	4.5	4.5
90-day delinquency rate	3.0%	3.9%	3.7%

Capital structure. The Company's objective is to maintain a capital structure that will assure continuing access to financial markets so that it can, at reasonable cost, provide for future needs and capitalize on attractive opportunities for growth.

The debt to capital per cent shown in the table below includes both debt recorded on the Company's consolidated balance sheets as well as off-balance-sheet debt related to operating leases and the securitization of a portion of the Company's customer accounts receivable (asset-backed certificates).

Debt to capital per cent

($ in millions)	1998	1997	1996
Short-term debt, net of cash investments	$ 1,602	$ 1,209	$ 3,818
Long-term debt, including current maturities	7,581	7,435	4,815
	9,183	8,644	8,633
Off-balance-sheet debt:			
Present value of operating leases	2,715	2,250	1,800
Securitization of receivables, net	146	343	374
Total debt	12,044	11,237	10,807
Consolidated equity	7,169	7,357	5,952
Total capital	$ 19,213	$ 18,594	$ 16,759
Per cent of total debt to capital	62.7%*	60.4%	64.5%**

** Upon completion of the Genovese acquisition, the Company's debt to capital ratio decreased to 61.9 per cent.*

*** Upon completion of the Eckerd acquisition, the Company's debt to capital ratio decreased to 60.1 per cent.*

The Company's debt to capital per cent has increased over the past three years which is reflective of its drugstore acquisitions. The Company currently expects the per cent to improve over the next several years.

Financing costs incurred by the Company to finance its operations, including those costs related to off-balance-sheet liabilities, were as follows:

($ in millions)	1998	1997	1996
Interest expense, net	$ 611	$ 581	$ 359
Interest portion of LESOP debt payment	2	10	17
Off-balance-sheet financing costs:			
Interest imputed on operating leases	225	180	110
Asset-backed certificate interest	46	68	68
Total	$ 884	$ 839	$ 554

Economic Value Added (EVA®). During 1998 the Company put the EVA concept in place as a key decision-making criterion for management. EVA is a tool that enables companies to measure the creation of financial value. Since the changes in EVA are often closely related to the changes in a company's stock price, the Company believes that management of the business on the basis of EVA will maximize the return on capital invested by its stockholders. Training for all management employees, focusing on the use of EVA as a management measurement tool, will be completed in 1999.

The Company's principal aim is the continual improvement in EVA, which directs attention to long-term performance. EVA principles are being incorporated into decision-making processes, including acquisition analyses, capital expenditure allocations, inventory management, and other strategic plans.

The Company has begun linking EVA performance with incentive compensation programs. In 1998, approximately 400 senior management employees had EVA performance as a component of their incentive compensation. 1998's EVA performance plan award was zero because the EVA growth target for 1998 was not met. In 1999, incentive compensation that includes an EVA component will be expanded to cover additional management employees who participate in the Company's incentive compensation program.

EBITDA. Earnings before interest, taxes, depreciation, and amortization (EBITDA) is a key measure of cash flow generated and is provided as an alternative assessment of operating performance. It is not intended to be a substitute for GAAP measurements. Following is a calculation of EBITDA by operating segment on an individual and combined basis (excludes other unallocated); calculations may vary for other companies:

($ in millions)	Department stores & catalog	Eckerd drugstores	Direct Marketing	Total Segments
1998				
Revenue	$ 19,331	$ 10,325	$ 1,022	$ 30,678
Operating profit	1,013	254	233	1,500
Depreciation and amortization	380	138	6	524
Credit operating results	131	–	–	131
Other[1]	139	134	–	273
EBITDA	1,663	526	239	2,428
% of revenue	8.6%	5.1%	23.4%	7.9%
1997				
Revenue	$ 19,955	$ 9,663	$ 928	$ 30,546
Operating profit	1,368	347	214	1,929
Depreciation and amortization	366	112	5	483
Credit operating results	35	–	–	35
Other[1]	160	97	–	257
EBITDA	$ 1,929	$ 556	$ 219	$ 2,704
% of revenue	9.7%	5.8%	23.6%	8.9%
1996				
Revenue	$ 19,506	$ 3,147	$ 818	$ 23,471
Operating profit	1,183	99	186	1,468
Depreciation and amortization	325	41	6	372
Credit operating results	81	–	–	81
Other[1]	165	30	–	195
EBITDA	$ 1,754	$ 170	$ 192	$ 2,116
% of revenue	9.0%	5.4%	23.5%	9.0%

(1) Consists of interest on operating leases and the ESOP, and the impact of asset-backed certificates.

Credit ratings. The Company's objective is to maintain a strong investment grade rating on its senior long-term debt and commercial paper. As of March 1999, the Company's credit ratings were under review for possible downgrade. Credit ratings at year end were:

	Long-Term Debt	Commercial Paper
Standard & Poor's Corporation	A	A1
Moody's Investors Service	A2	P1
Fitch Investors Service, Inc.	A	F1

CORPORATE GOVERNANCE

The Company is aware that many of its stockholders are interested in matters of corporate governance. JCPenney shares this interest and is, and for many years has been, committed to assuring that the Company is managed in a way that is fair to all its stockholders and which allows its stockholders to maximize the value of their investment by participating in the present and future growth of JCPenney. The Corporate Governance Committee of the Board of Directors reviews developments in the governance area as they affect relations between the Company and its stockholders and makes recommendations to the full Board regarding such issues.

Independent Board of Directors. In keeping with its long-standing practice, the Company's Board continues to be an independent board under any reasonable definition. Nominees for directors are selected by a committee composed entirely of directors who are not Company employees. The wide diversity of expertise, experience, and achievements that the directors possess in business, investments, large organizations, and public affairs allows the Board to most effectively represent the interests of all the Company's stockholders.

Independent committees. The Audit Committee, Benefit Plans Review Committee, Corporate Governance Committee, Personnel and Compensation Committee, and the Public Affairs Committee, all standing committees of the Board of Directors, are composed entirely of directors who are not employees of the Company. These committees, as well as the entire Board, consult with, and are advised by, outside consultants and experts in connection with their deliberations as needed.

Executive compensation. A significant portion of the cash compensation received by the Company's executive officers consists of performance incentive compensation payments derived from compensation plan "values." The amounts of these plan values are directly related to the sales and earnings of the Company and, consequently, vary from year to year based upon Company performance. The total compensation package for the Company's executive officers is set by the Personnel and Compensation Committee, which is composed entirely of directors who are not employees of JCPenney and which receives the advice of independent outside consultants. Please refer to the Company's 1999 Proxy Statement for a report from the Company's Personnel and Compensation Committee describing how compensation determinations are made.

Confidential voting. The Company has previously adopted a confidential voting policy statement. Under this policy, all proxy (voting instruction) cards, ballots, and vote tabulations, including telephone voting, that identify the particular vote of a stockholder are kept secret from the Company, its directors, officers, and employees. Proxy cards are returned in envelopes directly to the tabulator, who receives and tabulates the proxies. The final tabulation is inspected by inspectors of election who are independent of the Company, its directors, officers, and employees. The identity and vote of a stockholder is not disclosed to the Company, its directors, officers, or employees, or any third party except (i) to allow the independent election inspectors to certify the results of the vote; (ii) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (iii) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the Securities and Exchange Commission; or (iv) in the event a stockholder has made a written comment on such material.

CORPORATE CITIZENSHIP

Public affairs

A healthy social environment improves the quality of life for our associates, their families, and friends and also enhances the business community. Our Company remains committed to this partnership, reinvesting its money and promoting an environment where associates can invest their talents in the communities where we do business.

In 1998, the Company, including department stores and catalog, Direct Marketing, and Eckerd drugstores, supported charitable organizations with grants totaling $27.8 million, including $3.4 million in donated goods and services. The majority of this support was directed to local charitable organizations in communities nationwide.

Education and volunteerism. One of the Company's priority issues is education, specifically pre-kindergarten through 12th-grade education. In 1998, JCPenney conducted its sixth broadcast in a series, "The JCPenney Leadership Institute on School Improvement." The broadcast was presented to school and community leaders in 500 locations nationwide and received The Conference Board's Best in Class Award.

Eckerd served as a corporate sponsor of Enterprise Village in the Pinellas County, Fla., schools. The program gives fifth-grade students actual business and community experience in the free enterprise system. The Village houses miniature versions of businesses found in the community, including an Eckerd store.

Our community involvement also focuses on the encouragement and promotion of volunteerism. Our Golden Rule Awards, active in 216 JCPenney markets, publicly honor community volunteers and support their work with cash contributions. The James Cash Penney Awards for Community Service provide similar recognition to JCPenney and Eckerd associates for their outstanding volunteer activities. These two programs contributed $1.8 million to local charitable organizations in 1998.

Eckerd's centennial celebration included a Salute to 100 Women, which honored women nominated by customers for their outstanding community service and leadership. Eckerd co-hosted a symposium for the honorees at Emory University in Atlanta and provided $100,000 in grants to their charitable organizations.

Physical fitness and wellness. JCPenney's 1998 United Way campaign raised nearly $17 million in associate and unit pledges for nearly 1,000 United Way organizations across the country. In addition:

- JCPenney continued as the National Presenting Sponsor of the Susan G. Komen Breast Cancer Foundation Race for the Cure®. These fund-raising 5K races and one-mile runs/fitness walks were held in 85 cities in 1998.
- Eckerd raised $2.4 million for Children's Miracle Network, which supports children's hospitals throughout the United States and Canada.
- Direct Marketing initiated support for the Plano, Texas, launch of the Kick Drugs Out of America Foundation, which fights drugs and youth violence through a combination of educational and motivational programs.
- JCPenney associates, their families, and friends raised more than $780,000 for the prevention and cure of birth defects through participation in the March of Dimes WalkAmerica in more than 100 markets.
- The JCPenney Classic golf tournament, now in its 22nd year, has raised more than $11 million for Tampa Bay area charities.
- Over the past 20 years, JCPenney has employed 107 athletes through the U.S. Olympic Committee's Job Opportunities Program, allowing promising Olympic athletes to work toward building a career while training for their events.

Diversity. JCPenney has been a corporate member of the National Minority Supplier Development Council since 1972, and continues its $1 million investment in the NMSDC's Business Consortium Fund, which makes loans to minority-owned businesses. In 1996, the Company became a founding member of the Women's Business Enterprise National Council. In 1998, our purchases from minority-owned and women-owned businesses totaled $385 million and $240 million, respectively. For these endeavors, the Company received the 1998 Corporate Non-Signatory Award presented by the NAACP Special Contribution Fund and was named Corporation of the Year by the North Texas Women's Business Council. We also:

- Presented Joan Ganz Cooney, founder of Children's Television Workshop and the creator of Sesame Street, with the seventh Juanita Kreps Award honoring the Spirit of the American Woman, recognizing her outstanding accomplishments in educational television.
- Hosted the 10th annual Hispanic Designers Model Search in 19 JCPenney markets, including our international markets.
- Served as the exclusive retail sponsor of the Essence Awards, as we have since 1993.
- Continued our major sponsorship of the Alma Awards presented by the National Council of La Raza.

Environmental affairs

Our commitment to doing business in a responsible manner includes a determination to make environmental, health, and safety considerations an important factor in corporate decision making and policy. That policy is being implemented primarily through the thoughtful usage of lighting, generated power, merchandise packaging, recycling, and trash disposal and through the Company's adoption of safety-related programs.

Copies of "JCPenney Community Partners," the Company's Community Relations report, and "Matter of Principle: JCPenney and Environmental Responsibility," including the Company's Statement of Environmental Principles, may be obtained as indicated on page 47 of this Annual Report. Also, please visit www.jcpenney.com for an online version of "Community Partners."

Equal Employment Opportunity

	Total Employed 1998	Total Employed 1994*	Per Cent Female 1998	Per Cent Female 1994*	Per Cent Minority 1998	Per Cent Minority 1994*
Officials, managers, and professionals	28,520	19,020	47.8%	48.3%	17.7%	12.7%
Management trainees	334	748	66.2%	66.0%	30.8%	40.0%
Sales workers	140,718	105,384	83.5%	87.9%	26.5%	20.7%
Office and clerical workers	40,608	34,134	87.0%	88.5%	23.4%	19.6%
Technicians, craft workers, operatives, laborers, and service workers	48,679	41,244	68.1%	67.9%	31.2%	26.2%
Total	258,859	200,530	77.2%	79.8%	25.9%	20.9%

** 1994 does not include associate counts for the drugstore acquisitions.*

Equal employment opportunity. The Company adheres to a policy of equal employment opportunity. The above employment information summary represents associates of J. C. Penney Company, Inc. and subsidiaries, excluding associates in Brazil, Canada, Chile, Mexico, Puerto Rico, and the United Kingdom. The information provided delineates minority and female representation in major job categories.

Supplier legal compliance. JCPenney has a comprehensive and effective program for promoting compliance with labor and other laws in the factories used by its suppliers in the United States and abroad. This program is described in The JCPenney Supplier Legal Compliance Program, which may be obtained as indicated.

Annual meeting. The Company's Annual Meeting of Stockholders will be held at 10 a.m. local time, Friday, May 21, at the Company's Home Office located at 6501 Legacy Drive, Plano, Texas. You are cordially invited to attend. The Annual Report and Proxy Statement, including a request for proxies, were mailed to stockholders on or about April 15, 1999.

Stockholder investor services program. Investors may acquire shares of JCPenney common stock directly through a dividend reinvestment/direct purchase program as an alternative to broker assisted purchases. This program, which is being administered by The Chase Manhattan Bank, is available to both new and existing stockholders. The program has a minimum investment requirement of $25 for existing stockholders and is available to new stockholders after a minimum initial investment of $250. The program offers full or partial dividend reinvestment as well as payment of dividends by check or electronic deposit. In addition, the program offers safekeeping of stock certificates, transfers or gifts of JCPenney shares, and the ability to sell or withdraw shares by telephone. To receive more information about this program, call 1-800-565-2576.

Quarterly newsletter. If you are not currently receiving the quarterly newsletter to stockholders and would like to do so, please write us or contact us by fax, (972) 431-2212. You may also receive the quarterly newsletter from Public Relations through our home page on the Internet.

Financial/other information. Copies of the following are available upon request:

- The Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission
- JCPenney Quarterly News, a financial update
- The Partnership Program, opportunities for minority-owned and women-owned businesses
- JCPenney Community Partners, the Company's social responsibility report
- Matters of Principle: JCPenney and Environmental Responsibility
- The JCPenney Supplier Legal Compliance Program
- JCPenney Funding Corporation's Annual Report

Requests for the above should be addressed to:
Public Relations Department
J. C. Penney Company, Inc.
P. O. Box 10001, Dallas, TX 75301-4301
1-800-953-9421

Board of Directors

James E. Oesterreicher 6
Chairman of the Board and Chief Executive Officer

M. Anthony Burns 1,3,5,6
Chairman, President, and Chief Executive Officer, Ryder System, Inc.

Thomas J. Engibous 6
Chairman of the Board, President, and Chief Executive Officer, Texas Instruments Incorporated

Kent B. Foster 2,4
President, GTE Corporation

Vernon E. Jordan, Jr. 1,2,3
Senior Partner, Law Firm of Akin, Gump, Strauss, Hauer & Feld, L.L.P.

George Nigh 2,3,4 (*Retires 1999)*
Retired President, University of Central Oklahoma, and Formerly Governor of Oklahoma

Jane C. Pfeiffer 3,4,5
Independent Management Consultant

Ann W. Richards 1,2,5
Senior Advisor, Law Firm of Verner, Liipfert, Bernhard, McPherson & Hand, and Formerly Governor of Texas

Francisco Sanchez-Loaeza 1,4,6
Chairman, Chief Executive Officer, and President, Panamerican Beverages, Inc.

Charles S. Sanford, Jr. 1,3,4,6
Retired Chairman and Chief Executive Officer, Bankers Trust New York Corporation and Bankers Trust Company

R. Gerald Turner 2,3,5
President, Southern Methodist University

Management Committee

James E. Oesterreicher
Chairman of the Board and Chief Executive Officer

Marilee J. Cumming
President of Merchandising for JCPenney Stores and Catalog

Gary L. Davis
Executive Vice President, Chief Human Resources and Administration Officer

Gale Duff-Bloom
President of Marketing and Company Communications

David V. Evans
Senior Vice President, Chief Information Officer

John E. Fesperman
President and Chief Operating Officer, JCPenney Direct Marketing Services, Credit, and Facilities Services

Thomas D. Hutchens
President and Chief Operating Officer, International

Charles R. Lotter
Executive Vice President, Secretary and General Counsel

Donald A. McKay
Executive Vice President and Chief Financial Officer

Francis A. Newman
Chairman of the Board, President, and Chief Executive Officer of Eckerd Corporation

Michael W. Taxter
Senior Vice President, Director of JCPenney Stores

Board Committees

1. Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The committee also reviews the independent auditors' audit strategy and plans, scope, fees, audit results of the auditors, and non-audit services and related fees; internal audit reports on the adequacy of internal accounting controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings.

2. Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends, community affairs, and public policy issues that may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest.

3. Member of the Corporate Governance Committee. This committee considers matters of corporate governance and reviews developments in the governance area as they affect relations between the Company and its stockholders. It also makes recommendations to the Board with respect to the size, composition, organization, responsibilities, and functions of the Board and its directors, the qualifications of directors, candidates for election as directors, and the compensation of directors.

4. Member of the Personnel and Compensation Committee. This committee reviews and administers the Company's annual and long-term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors.

5. Member of the Benefit Plans Review Committee. This committee reviews annually the financial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pension plan, and the financial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans. It is also the committee that administers certain of the Company's retirement and welfare plans.

6. Member of the Finance Committee. This committee is responsible for reviewing the Company's financial policies, strategies, and capital structure.

STOCKHOLDER RELATIONS

Transfer Agent/Registrar

Inquiries about your stockholder records should be forwarded to:

ChaseMellon Shareholder Services L.L.C.
Shareholder Relations Department
P. O. Box 3315
South Hackensack, NJ 07606
1-800-842-9470
www.chasemellon.com

Exchange Listing

The New York Stock Exchange

Ticker symbol: JCP

Internet Access

www.jcpenney.com

Sales Release Dates for Fiscal 1999

Release Date	Sales Period
March 4	February
April 8	March
May 6	April
June 3	May
July 8	June
August 5	July
September 2	August
October 7	September
November 4	October
December 2	November
January 6, 2000	December
February 3, 2000	January 2000

Earnings Release Dates for Fiscal 1999

Release Date	Quarter
May 18	1st Quarter
August 17	2nd Quarter
November 16	3rd Quarter
February 24, 2000	4th Quarter

Security Analyst & Investment Professional Contacts

W. C. Watkins	(972) 431-1972
Eli Akresh	(972) 431-2207

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